DOCUMENT RESUME

ED 405 475 CE 073 682

AUTHOR	Hamilton, William H.; Connelly, Donald F.
TITLE	Small Business Planning and Management for the First-Time Entrepreneur. Instructor's Resource Manual. Student Workbook.
INSTITUTION	Ohio State Univ., Columbus. Agricultural Curriculum Materials Service.
SPONS AGENCY	Ohio State Dept. of Education, Columbus. Div. of Vocational and Adult Education.
REPORT NO	ISBN-1-56502-012-X; ISBN-1-56502-013-8
PUB DATE	96
NOTE	452p.; For a related textbook, see ED 391 956.
AVAILABLE FROM	Ohio Agricultural Education Curriculum Materials Service, 254 Agricultural Administration Bldg., 2120 Fyffe Road, Columbus, OH 43210-1067.
PUB TYPE	Guides - Classroom Use - Instructional Materials (For Learner) (051) -- Guides - Classroom Use - Teaching Guides (For Teacher) (052)
EDRS PRICE	MF01/PC19 Plus Postage.
DESCRIPTORS	Adult Education; *Business Administration; Business Education; Distributive Education; *Entrepreneurship; Instructional Materials; Learning Activities; *Marketing; Money Management; *Planning; Self Employment; *Small Businesses; Teaching Guides; Workbooks

ABSTRACT

This instructor's resource manual and student workbook accompany the textbook of the same name. The manual is intended to help the teacher working with the small business manager and first-time entrepreneur. Each chapter contains these sections: instructional goals; resource people; tips for follow-up activities at the end of each chapter; descriptions of and tips for presenting the transparency masters; answers to questions at the end of each chapter, workbook questions, and workbook vocabulary; and transparency masters. Part I has two chapters: Start Where You Are and The Idea of Entrepreneurship. Part II has four chapters: The Idea of Goal Setting; Considering the Alternatives; Reviewing the Start-Up Plans of Others; and Solving the Location Puzzle. Part III consists of five chapters: Becoming a Competitor; Studying the Market Place; Pursuing Positive Publicity; Advertising and Promotion; and Using Trade Shows and Fairs. Part IV has six chapters: Setting Prices; Keeping Score; Interpreting the Scorecard; The Question of Credit; Managing Cash Flow; and Business Taxes. The four chapters in Part V are Delegating Details; What Risks Are There?; Managing Business Expansion; and Legal Concerns for Your Business. The student workbook may provide some or all of these materials for each chapter: space for lecture notes; practice exercises; vocabulary exercise; and an aid that may be a checklist or series of questions and comments. Appendixes include problem-solving aids, basic outline for a business plan, and insurance worksheet. (YLB)

ED 405 475

Small Business Planning and Management for the First-Time Entrepreneur
Instructor's Resource Manual
Student Workbook

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

- Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

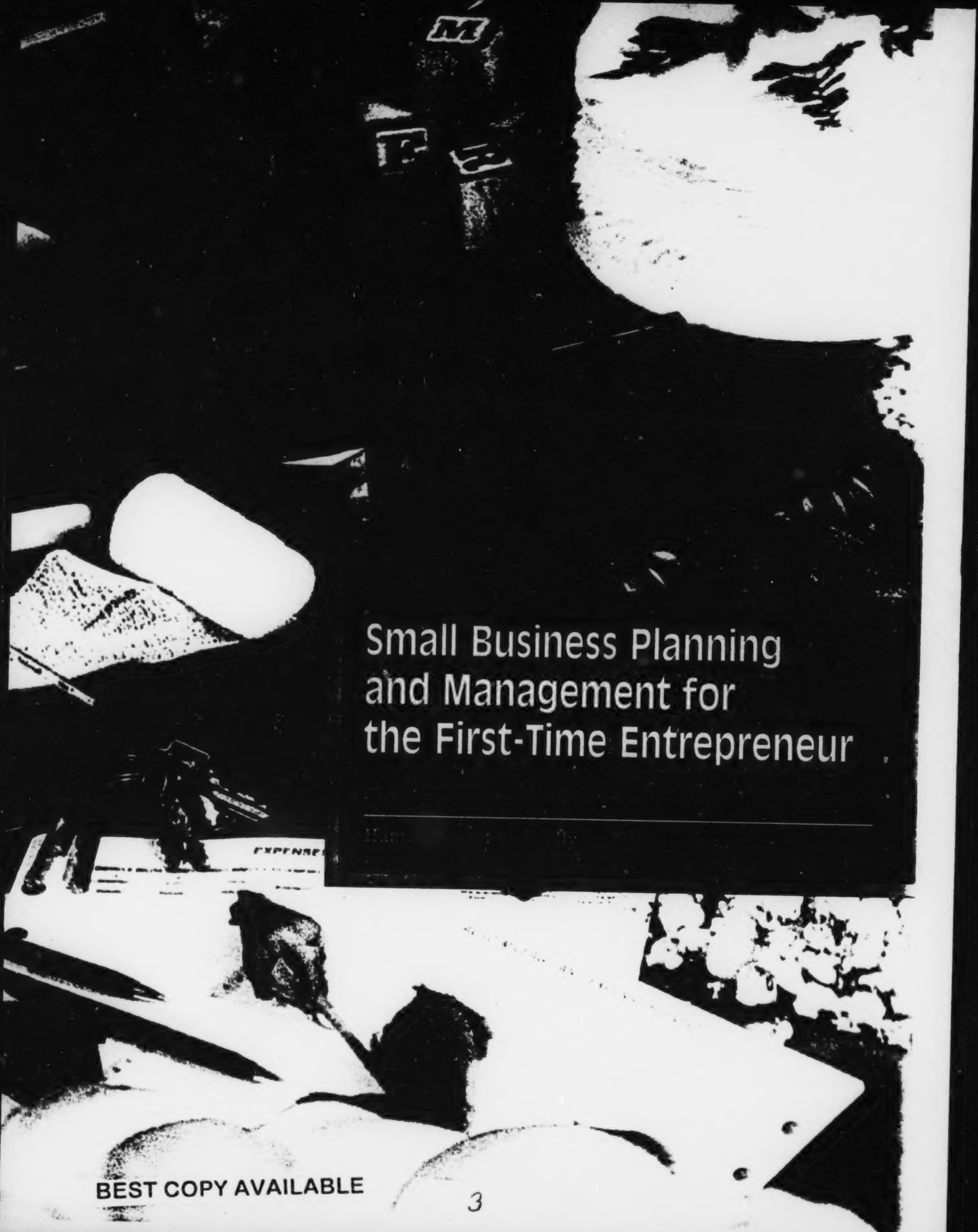
PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

W Waidelich

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

BEST COPY AVAILABLE

CE073682



Small Business Planning and Management for the First-Time Entrepreneur

---

[illegible]

BEST COPY AVAILABLE

Small Business Planning and Management for the First-Time Entrepreneur

– INSTRUCTOR'S RESOURCE MANUAL –

---

by

William H. Hamilton, Professor Emeritus
Agricultural Education, Purdue University
B.S. and M.S., Iowa State University
Ph.D., Cornell University

Donald F. Connelly, Instructor
Indiana Vocational Technical College
B.S. and postgraduate work, Purdue University

Robert D. Sommers, Assistant Director
Division of Vocational and Adult Education
Agricultural Education Service
Ohio Department of Education

William D. Waidelich, Director
Ohio Agricultural Education
Curriculum Materials Service
The Ohio State University

ISBN 1-56502-013-8

Copyright © 1996

Ohio Agricultural Education Curriculum Materials Service
The Ohio State University

All rights reserved

OHIO AGRICULTURAL EDUCATION CURRICULUM MATERIALS SERVICE
The Ohio State University
254 Agricultural Administration Building
2120 Fyffe Road
Columbus, Ohio 43210-1067

Telephone: (614) 292-4848
FAX: (800) 292-4919

1996

The Ohio Agricultural Education Curriculum Materials Service, as a part of The Ohio State University, is an equal opportunity employer and does not discriminate against any individual for reasons of race, color, creed, religion, national origin, sex, or handicap. All instructional materials are available to all potential clientele on a non-discriminatory basis without regard to race, color, creed, religion, national origin, sex, or handicap.

CONTENTS

PART I – Looking at Entrepreneurship

CHAPTER 1 – *Start Where You Are* 3
Instructional Goals 3
Resource People 3
Tips for Follow-Up Activities in Textbook 3
Transparency Masters 5
Answers to Questions to Increase Your Understanding of the Text 6
Answers to Workbook Questions 6
Answers to Workbook Vocabulary 6

CHAPTER 2 – *The Idea of Entrepreneurship* 25
Instructional Goals 25
Resource People 25
Tips for Follow-Up Activities in Textbook 25
Transparency Masters 26
Answers to Questions to Increase Your Understanding of the Text 26
Answers to Workbook Questions 27
Answers to Workbook Vocabulary 27

PART II – Planning for Entrepreneurship

CHAPTER 3 – *The Idea of Goal Setting* 47
Instructional Goals 47
Resource Person 47
Tips for Follow-Up Activities in Textbook 47
Transparency Masters 47
Answers to Questions to Increase Your Understanding of the Text 48
Answers to Workbook Questions 48
Answers to Workbook Vocabulary 49

CHAPTER 4 – *Considering the Alternatives* 59
Instructional Goals 59
Resource People 59
Tips for Follow-Up Activities in Textbook 59
Transparency Masters 59
Answers to Questions to Increase Your Understanding of the Text 60
Answers to Workbook Questions 61
Answers to Workbook Vocabulary 61

CHAPTER 5 – *Reviewing the Start-Up Plans of Others* 77
Instructional Goals 77
Resource People 77
Tips for Follow-Up Activities in Textbook 77
Transparency Masters 77
Answers to Questions to Increase Your Understanding of the Text 78
Answers to Workbook Questions 78
Answers to Workbook Vocabulary 79

CHAPTER 6 – *Solving the Location Puzzle* 95
Instructional Goals 95
Resource People 95
Tips for Follow-Up Activities in Textbook 95
Transparency Masters 95
Answers to Questions to Increase Your Understanding of the Text 96
Answers to Workbook Questions 96
Answers to Workbook Vocabulary 96

PART III – Marketing Your Product or Service

CHAPTER 7 – *Becoming a Competitor* 111
Instructional Goals 111
Resource People 111
Tips for Follow-Up Activities in Textbook 111
Transparency Masters 111
Answers to Questions to Increase Your Understanding of the Text 112
Answers to Workbook Questions 113
Answers to Workbook Vocabulary 113

CONTENTS *(continued)*

PART III – Marketing Your Product or Service *(continued)*

CHAPTER 8 – *Studying the Market Place* 127
  Instructional Goals 127
  Resource People 127
  Tips for Follow-Up Activities in Textbook 127
  Transparency Masters 127
  Answers to Questions to Increase Your Understanding of the text 128
  Answers to Workbook Questions 128
  Answers to Workbook Vocabulary 129

CHAPTER 9 – *Pursuing Positive Publicity* 141
  Instructional Goal 141
  Resource Person 141
  Tips for Follow-Up Activities in Textbook 141
  Transparency Masters 141
  Answers to Questions to Increase Your Understanding of the Text 141
  Answers to Workbook Questions 142
  Answers to Workbook Vocabulary 142

CHAPTER 10 – *Advertising and Promotion* 147
  Instructional Goals 147
  Resource People 147
  Tips for Follow-Up Activities in Textbook 147
  Transparency Masters 147
  Answers to Questions to Increase Your Understanding of the Text 148
  Answers to Workbook Questions 148
  Answers to Workbook Vocabulary 148

CHAPTER 11 – *Using Trade Shows and Fairs* 159
  Instructional Goals 159
  Resource People 159
  Tips for Follow-Up Activities in Textbook 159
  Transparency Masters 159
  Answers to Questions to Increase Your Understanding of the Text 160
  Answers to Workbook Questions 160
  Answers to Workbook Vocabulary 160

PART IV – Financial Management

CHAPTER 12 – *Setting Prices* 171
  Instructional Goals 171
  Resource People 171
  Tips for Follow-Up Activities in Textbook 171
  Transparency Masters 171
  Answers to Questions to Increase Your Understanding of the Text 172
  Answers to Workbook Questions 172
  Answers to Workbook Vocabulary 174

CHAPTER 13 – *Keeping Score* 189
  Instructional Goals 189
  Resource People 189
  Tips for Follow-Up Activities in Textbook 189
  Transparency Masters 197
  Answers to Questions to Increase Your Understanding of the Text 198
  Answers to Workbook Questions 198
  Answers to Workbook Vocabulary 199

CHAPTER 14 – *Interpreting the Scorecard* 223
  Instructional Goals 223
  Resource People 223
  Tips for Follow-Up Activities in Textbook 223
  Transparency Masters 223
  Answers to Questions to Increase Your Understanding of the Text 224
  Answers to Workbook Questions 224
  Answers to Workbook Vocabulary 224

CONTENTS *(continued)*

PART IV – Financial Management *(continued)*

CHAPTER 15 – *The Question of Credit* 235
  Instructional Goals 235
  Resource People 235
  Tips for Follow-Up Activities in Textbook 235
  Transparency Masters 235
  Answers to Questions to Increase Your Understanding of the Text 236
  Answers to Workbook Questions 236
  Answers to Workbook Vocabulary 237

CHAPTER 16 – *Managing Cash Flow* 249
  Instructional Goals 249
  Resource People 249
  Tips for Follow-Up Activities in Textbook 249
  Transparency Masters 249
  Answers to Questions to Increase Your Understanding of the Text 250
  Answers to Workbook Questions 250
  Answers to Workbook Vocabulary 251

CHAPTER 17 – *Business Taxes* 267
  Instructional Goals 267
  Resource People 267
  Tips for Follow-Up Activities in Textbook 267
  Transparency Masters 267
  Answers to Questions to Increase Your Understanding of the Text 268
  Answers to Workbook Questions 268
  Answers to Workbook Vocabulary 268

PART V – Managing Small Business

CHAPTER 18 – *Delegating Details* 279
  Instructional Goals 279
  Resource People 279
  Tips for Follow-Up Activities in Textbook 279
  Transparency Masters 279
  Answers to Questions to Increase Your Understanding of the Text 280
  Answers to Workbook Questions 280
  Answers to Workbook Vocabulary 280

CHAPTER 19 – *What Risks Are There?* 293
  Instructional Goals 293
  Resource People 293
  Tips for Follow-Up Activities in the Textbook 293
  Transparency Masters 293
  Answers to Questions to Increase Your Understanding of the Text 294
  Answers to Workbook Questions 294
  Answers to Workbook Vocabulary 295

CHAPTER 20 – *Managing Business Expansion* 305
  Instructional Goals 305
  Resource People 305
  Tips for Follow-Up Activities in the Textbook 305
  Transparency Masters 305
  Answers to Questions to Increase Your Understanding of the Text 306
  Answers to Workbook Questions 306
  Answers to Workbook Vocabulary 306

CHAPTER 21 – *Legal Concerns for Your Business* 315
  Instructional Goal 315
  Resource People 315
  Tips for Follow-Up Activities in Textbook 315
  Transparency Masters 315
  Answers to Questions to Increase Your Understanding of the Text 316
  Answers to Workbook Questions 316
  Answers to Workbook Vocabulary 318

INTRODUCTION

This instructor's resource manual is designed to aid the teacher using the textbook *Small Business Planning and Management for the First-Time Entrepreneur.*

The goal of this resource manual is to help you, the teacher, work with the small business manager and first-time entrepreneur. It was written to simplify the concepts that entrepreneurs need as they start and manage their businesses.

Each chapter in this manual contains the following sections:

1. **Instructional Goals** – This is a list of the abilities your students should have after studying the materials in the textbook and completing the student workbook.
2. **Resource People** – This is a list of possible speakers or sources of information for your class.
3. **Tips for Follow-Up Activities in Textbook** – These are tips for conducting the follow-up activities presented at the end of each chapter in the textbook.
4. **Transparency Masters** – These are descriptions of and/or tips for presenting the transparency masters appearing at the end of each chapter in this resource manual.
5. **Answers to Questions to Increase Your Understanding of the Text** – These are suggested answers to the questions presented at the end of each chapter in the textbook.
6. **Answers to Workbook Questions** – These are suggested answers to questions in the student workbook.
7. **Answers to Workbook Vocabulary** – These are answers to The Entrepreneur's Vocabulary in the student workbook.
8. **Transparency Masters** - These supplement your presentation of the material in the textbook. They appear at the end of each chapter in this resource manual.

We believe this instructor's resource manual will be very useful in providing a better understanding of the concepts of entrepreneurship. Good luck in using this manual!

The Authors,

Bill & Don

Cover design and manuscript editing and layout by Jacqueline A. Stuts, Curriculum Materials Service.

PART I

CORNER
BAKERY

Looking at Entrepreneurship

CHAPTER 1

Start Where You Are

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To develop an entrepreneurial attitude
- To demonstrate the three entrepreneurial resources available to each person
- To measure resources
- To understand the balance sheet
- To complete a personal balance sheet
- To understand the income statement
- To understand the relationship between balance sheets and the income statement
- To complete an income statement
- To understand the relationship among balance sheets, income statements, and cash flow forecasts
- To complete a Schedule C, Form 1040

RESOURCE PEOPLE

1. Beginning entrepreneurs
2. Small Business Development Center personnel

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

1. Prepare the students for their visit to the Small Business Development Center (SBDC) office by role playing and developing interview questions. Remind your students to be cautious and courteous when soliciting help from business people. Recommend that they prepare their questions in advance and approach the owner at a time when other business activity is at a minimum. Ask them to give appropriate thanks to the owners, such as a note of appreciation.
2. Duplicate Transparency Masters 1-7 and 1-8 for class use. Use the Rightway Builders information provided on page 4 or substitute local information appearing in the newspaper.
3. Use the information on page 4 for the income statement and Schedule C exercises or provide your own data.

Rightway Builders

December 31, 19xx

ASSETS	
Cash on hand or in banks	$ 5,462.28
Accounts receivable	6,328.50
Inventory	1,479.00
Prepaid insurance	458.00
Land and buildings	138,500.00
Equipment	55,450.00
Total Assets	**$ 207,687.78**
LIABILITIES	
Accounts payable	$ 4,189.00
Mortgage	98,050.00
Total Liabilities	**$ 102,209.00**
Net Worth (or Owner's Equity)	**105,482.78**
TOTAL LIABILITIES AND NET WORTH	**$ 207,687.78**

Rightway Builders Income Statement

1/1/xx to 12/31/xx

INCOME	
Sales	$ 194,459.00
Cost of sales	
Building supplies	79,385.00
Related expenses	11,267.00
Total cost of goods	90,652.00
Gross profit	103,707.00
EXPENSES	
Wages	$ 42,469.00
Utilities	1,708.00
Telephone	389.00
Trash	312.00
Advertising	415.00
Interest	5,768.00
Taxes	4,316.00
Depreciation	5,500.00
	$ 60,877.00
Net Profit	**$ 42,830.00**

TRANSPARENCY MASTERS

These transparency masters are for your classroom use as instructional materials or as aids for summarizing the lessons. Helpful notes follow:

TM 1-1. Discuss the class goals with the students. If they know what they are to gain from the chapter, it motivates them.

TM 1-2. These questions suggest subject matter to be explored and direct attention. Always ask for additional questions from the class.

TM 1-3. Encourage the students to bring up points they gained from the case study. They may see potential lesson points not listed.

TM 1-4. Use a piece of paper to cover the answer when projecting this TM – then remove the paper to answer the question.

TM 1-5. Review the entrepreneurial resources Beth had at her start-up. Ask students to recognize individual resources for their ventures.

TM 1-6. Use the triangle and list the inputs.

TM 1-7 and 1-8. This represents a form some banks use to evaluate a loan request.

TM 1-9. The basic accounting equation

TM 1-10 and 1-11. Schedule C, Form 1040. Secure the latest version from your IRS office. The 1994 version appears as Appendix D in the textbook.

TM 1-12 and 1-13. These copies can help you explain a balance sheet as a single point in time when an income statement summarizes the activity between balance sheets. Cash flow changes are also highlighted.

TM 1-14. Use this to center attention on the four components of management. Not all the points in the textbook are listed on the transparency master.

The four components of management include marketing, operations, finances and personnel.

1. *Marketing* involves research, advertising and promotion, merchandising, displaying, and selling.
2. *Operations* includes the mixing, baking, and packaging of the products.
3. *Finances* are crucial to the new business. Decisions include the type of financing to use and type of ownership to establish.
4. *Personnel* are important because they represent your contact with customers. Decisions involve compensation, benefits, scheduling, and personnel policies.

TM 1-15. When projecting this TM, use a piece of paper to cover the answer. You can probably find a copy of this publication at your bank or library.

TM 1-16. A simple balance sheet for use by an individual

TM 1-17. A simple business balance sheet form

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Beth's competitive advantages consist of knowledge and experience in the business as well as strong family support.
2. Answers should include continued work and study.
3. Planning starts at the beginning or at **SQUARE 1**.
4. The four management components named are marketing, operations, finances, and personnel.
5. Management decisions are changed when new information indicates the change is essential or profitable.
6. Rating your performance is essential to improvement.

ANSWERS TO WORKBOOK QUESTIONS

1. See Transparency 1-5 for the inputs. The return to mind is management returns or profit; to muscle it is labor income; and to money it is returns on investment.
2. Answers will vary.
3. Assets – Liabilities (Debts) = Net Worth, or
   Assets = Liabilities (Debts) + Net Worth.
4. A financial snapshot
5. To give the financial picture on a given date or point in time
6. To show what happens between two balance sheet dates – a period report
7. Profit and loss statement; P & L's; or Schedule C, Form 1040
8. Change in net worth
9. Change in cash
10. Repayment capacity and to identify assets available to secure a loan
11. Business decision making
12. *Operations* – day to day activities; *Marketing* – activities to sell products or services; *Finances* – money invested in the business; *Personnel* – staff who work in the business
13. Robert Morris Associates
14. "I have an idea."
15. Entrepreneur

ANSWERS TO WORKBOOK VOCABULARY

1. v
2. aa
3. l
4. a
5. c
6. g
7. f
8. e
9. cc
10. gg
11. s
12. u
13. ee
14. i
15. x
16. k
17. d
18. hh
19. t
20. p
21. o
22. q
23. w
24. j
25. ff
26. y
27. z
28. m
29. r
30. b
31. dd
32. h
33. bb
34. n

TM 1-1

Class Goals

Chapter 1 presents the information necessary for you to develop the following abilities:

1. To develop an entrepreneurial attitude
2. To demonstrate the three entrepreneurial resources available to each person
3. To measure resources
4. To understand the balance sheet
5. To complete a personal balance sheet
6. To understand the income statement
7. To understand the relationship between balance sheets and the income statement
8. To complete an income statement
9. To understand the relationship among balance sheets, income statements, and cash flow forecasts
10. To complete a Schedule C, Form 1040

TM 1-2

Questions to Consider

1. What are my three business resources?
2. How do I measure my resources?
3. What is the purpose of a balance sheet?
4. What is the purpose of an income statement?
5. What is the relationship between balance sheets and income statements?
6. What is the relationship between the income statement (profit & loss) and Form 1040, Schedule C?
7. What are the relationships among balance sheets, income statements, and cash flow forecasts?

TM 1-3

Notes from the Case Study

1. Knowledge of the industry and specific business is important to success.
2. Bankers often require personal assets, such as a second mortgage, as collateral for business start-up loans.
3. Risk-takers have no guarantees.
4. Would-be entrepreneurs can benefit from SBDC counseling.
5. Bankers are excellent resources for financial planning.
6. Family labor is often a helpful resource.
7. A change in ownership often disrupts business activities.
8. Realistic cash flow forecasts are essential to acquiring capital.
9. Customer loyalty is a valuable business asset.
10. SBDC offices provide free services such as printed materials, workshops, seminars, and counseling.
11. Lenders require a balance sheet and income statement projections prior to loan approval.

TM 1-4

Where Do I Start?

1

at Square 1!

TM 1-5

Beth's Resources

MIND

1. Experience at the corner bakery
3. Banker friend's help
3. SBDC counseling aid
4. Husband's help and expertise

MUSCLE

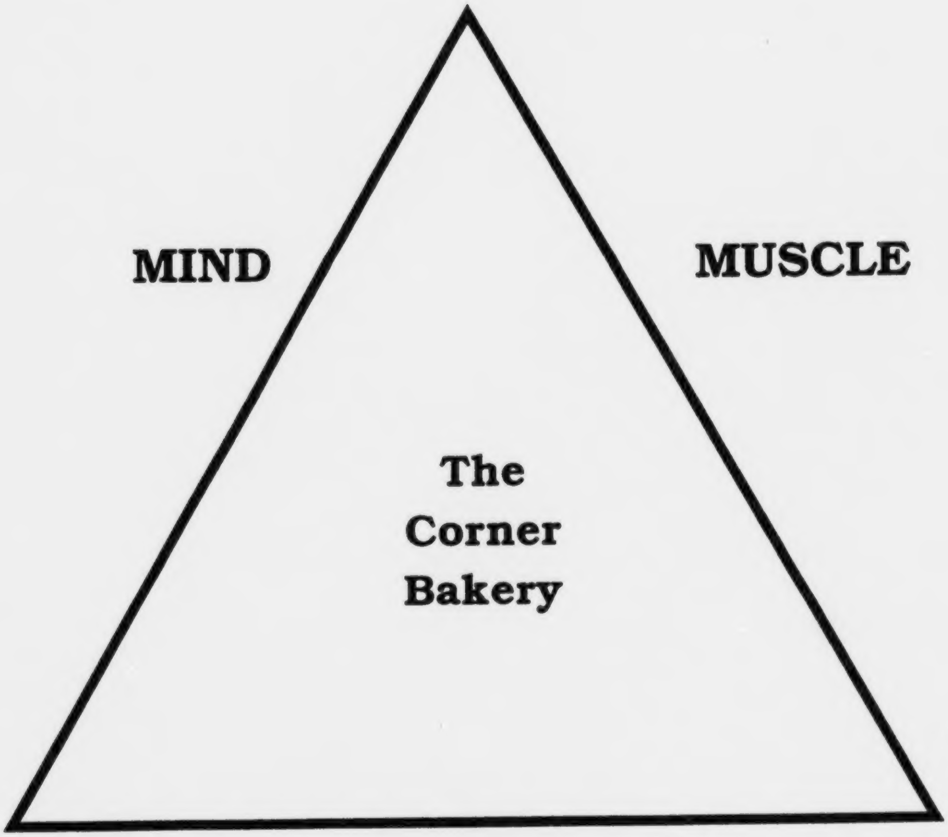
1. Own time
2. Two high school children
3. Two college-age children
4. Husband's part-time help
5. One exceptional employee

MONEY

1. Family savings
2. Second mortgage on the family home

TM 1-6

Entrepreneurial Resources



MIND

MUSCLE

The Corner Bakery

MONEY

TM 1-7

My Personal Financial Statement

Date ______________________ 19 ______

Name and Address ____

____

____

This is a true, accurate, and complete statement of my financial condition as of the above date.

____

Signature

MY BALANCE STATEMENT AS OF ______________ (date)

Assets (What I Own) *(Itemize in lists on back of page)*		**Liabilities (What I Owe)** *(Itemize in lists on back of page)*	
1. Cash, checking, savings (list A)	$ ________	11. Accounts payable	$ ________
2. Government securities, stocks, bonds, etc. (list B)	________	12. Notes to financial institutions (list F)	________
3. Life insurance (cash value) (list C)	________	13. Notes to others (list G)	________
4. Accounts and notes receivable	________	14. Real estate mortgage loans (list H)	________
5. Salable inventory	________	15. Interest and taxes due	________
6. Real property (list D)	________	16. Other debts	________
7. Machinery and equipment	________	**TOTAL LIABILITIES**	$ ________
8. Furniture and fixtures	________	17. **OWNER'S EQUITY** (total assets less total liabilities)	$ ________
9. Motor vehicles	________		
10. Other property (list E)	________		
TOTAL ASSETS	$ ________	**TOTAL LIABILITIES AND EQUITY**	$ ________

Use appraised or estimated fair market values and note all assets which secure debts.

MY INCOME STATEMENT FOR THE PERIOD ____ TO ____

Statement of Income	Prior Year	Current Year
Net income from my proprietorship business	$	$
Salaries, wages, etc. from employment	$	$
Income from dividends and interest		
Net income from rent and other investments		
TOTAL INCOME	$	$

TM 1-8

Supporting Lists

(Total in each of the lists should agree with appropriate items on the financial statement)

LIST A – Checking and Savings Accounts and Certificates of Deposit

Name of Depository	In Whose Name	Amount
	TOTAL	$

LIST B – Securities

Description	Marketability	Number of Shares or Principal	Registered in Name of	Current Value
			TOTAL	$

LIST C – Life Insurance

Company	Insured	Beneficiary	Face Amount	Loans	Cash Value
				TOTAL	$

LIST D – Real Property

Description (Acreage and Location)	Title in Name of	When Acquired	Cost	Insurance	Current Value
				TOTAL	$

LIST E – Other Property

Description	Value
TOTAL	$

LIST F – Notes to Financial Institutions

Creditor	Security	Date Due or Payment Schedule	Amount
		TOTAL	$

LIST G – Notes to Others

Creditor	Security	Date Due or Payment Schedule	Amount
		TOTAL	$

LIST H – Real Estate Mortgages

Creditor	Property	Date Due	Amount
		TOTAL	$

TM 1-9

The Basic Accounting Equation

Assets - Liabilities = Net Worth

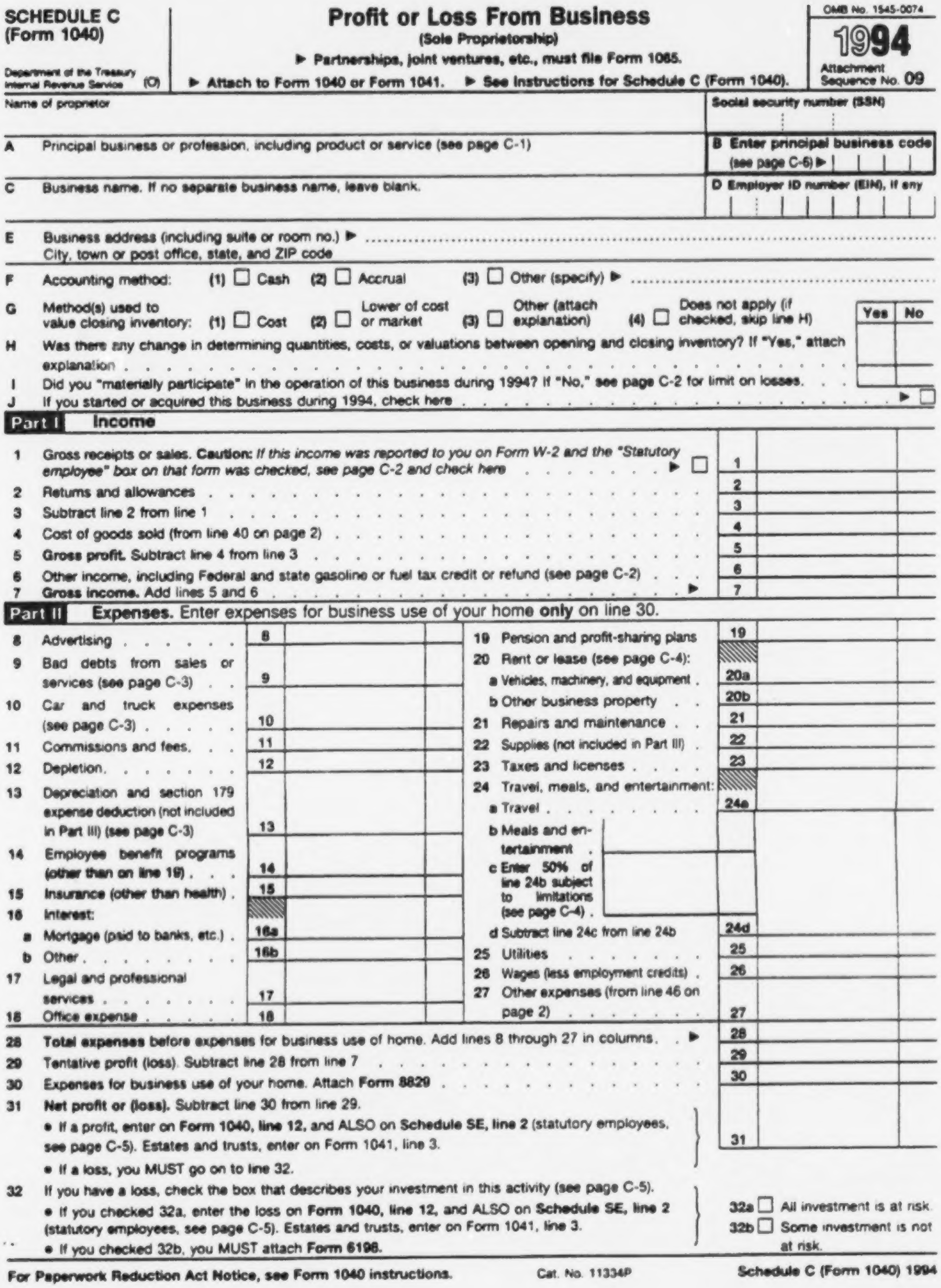
or

Assets = Liabilities + Net Worth

TM 1-10

Schedule C, Form 1040

Side 1



SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (O)

Profit or Loss From Business
(Sole Proprietorship)
▶ Partnerships, joint ventures, etc., must file Form 1065.
▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074
1994
Attachment Sequence No. 09

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see page C-1)

B Enter principal business code (see page C-6) ▶

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), if any

E Business address (including suite or room no.) ▶ ....
City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ ....

G Method(s) used to value closing inventory: (1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation) (4) ☐ Does not apply (if checked, skip line H) — Yes No

H Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . . .

I Did you "materially participate" in the operation of this business during 1994? If "No," see page C-2 for limit on losses. . . .

J If you started or acquired this business during 1994, check here . . . . . ▶ ☐

Part I **Income**

1 Gross receipts or sales. **Caution:** *If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-2 and check here* . . . ▶ ☐ 1

2 Returns and allowances 2

3 Subtract line 2 from line 1 3

4 Cost of goods sold (from line 40 on page 2) 4

5 **Gross profit.** Subtract line 4 from line 3 5

6 Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-2) . . . 6

7 **Gross income.** Add lines 5 and 6 . . . . . ▶ 7

Part II **Expenses.** Enter expenses for business use of your home **only** on line 30.

8 Advertising 8

9 Bad debts from sales or services (see page C-3) . . 9

10 Car and truck expenses (see page C-3) 10

11 Commissions and fees. . . 11

12 Depletion. 12

13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-3) 13

14 Employee benefit programs (other than on line 19) . . . 14

15 Insurance (other than health) . 15

16 Interest:

a Mortgage (paid to banks, etc.) . 16a

b Other 16b

17 Legal and professional services 17

18 Office expense 18

19 Pension and profit-sharing plans 19

20 Rent or lease (see page C-4):

a Vehicles, machinery, and equipment . 20a

b Other business property . . 20b

21 Repairs and maintenance . . 21

22 Supplies (not included in Part III) . 22

23 Taxes and licenses 23

24 Travel, meals, and entertainment:

a Travel 24a

b Meals and entertainment .

c Enter 50% of line 24b subject to limitations (see page C-4) .

d Subtract line 24c from line 24b 24d

25 Utilities 25

26 Wages (less employment credits) . 26

27 Other expenses (from line 46 on page 2) 27

28 **Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns. . ▶ 28

29 Tentative profit (loss). Subtract line 28 from line 7 29

30 Expenses for business use of your home. Attach **Form 8829** 30

31 **Net profit or (loss).** Subtract line 30 from line 29.
- If a profit, enter on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3.
- If a loss, you MUST go on to line 32.

31

32 If you have a loss, check the box that describes your investment in this activity (see page C-5).
- If you checked 32a, enter the loss on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3.
- If you checked 32b, you MUST attach **Form 6198.**

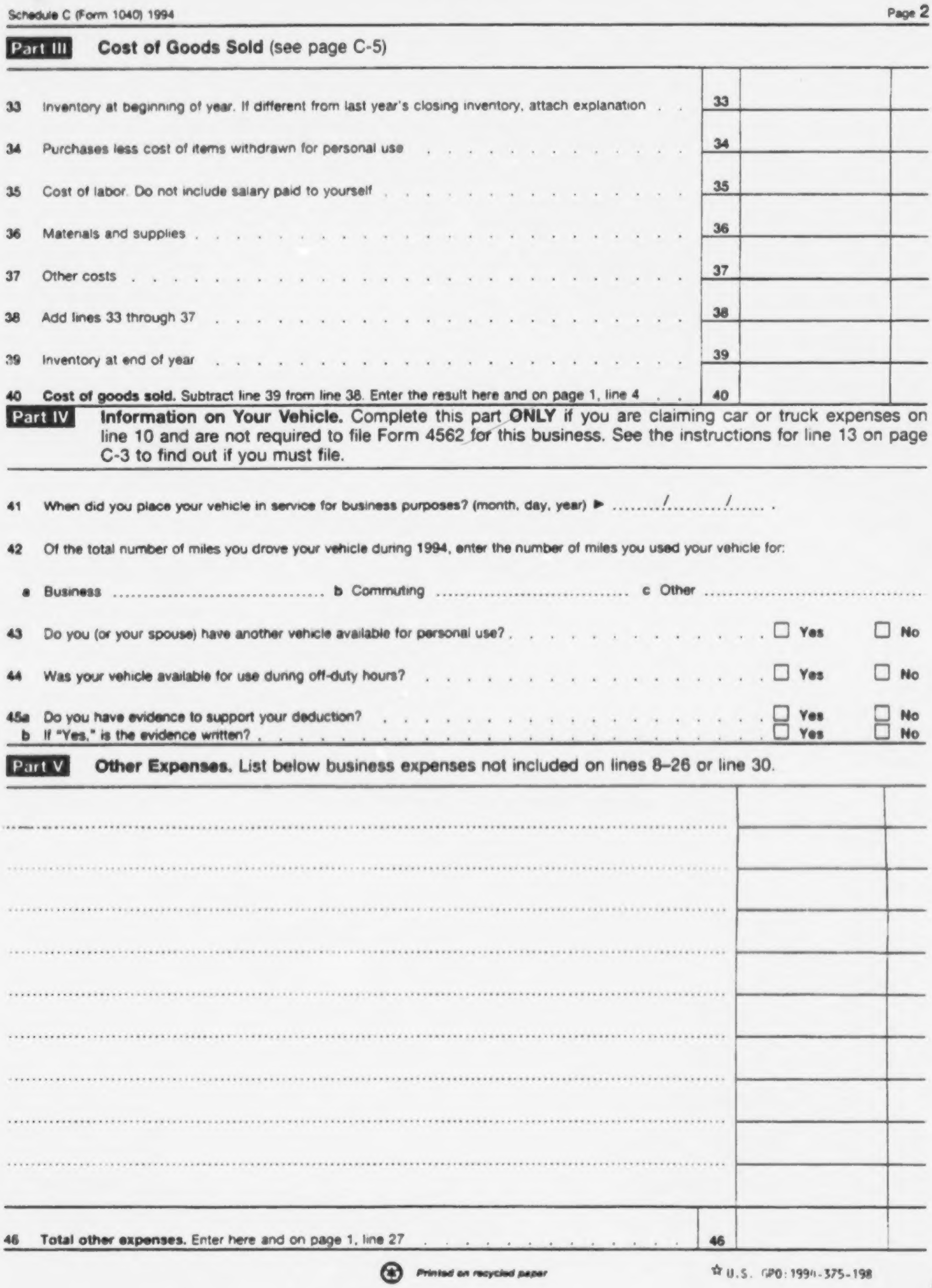
32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11334P **Schedule C (Form 1040) 1994**

TM 1-11

Schedule C, Form 1040

Side 2



Schedule C (Form 1040) 1994 Page 2

Part III **Cost of Goods Sold** (see page C-5)

33 Inventory at beginning of year. If different from last year's closing inventory, attach explanation	33	
34 Purchases less cost of items withdrawn for personal use	34	
35 Cost of labor. Do not include salary paid to yourself	35	
36 Materials and supplies	36	
37 Other costs	37	
38 Add lines 33 through 37	38	
39 Inventory at end of year	39	
40 **Cost of goods sold.** Subtract line 39 from line 38. Enter the result here and on page 1, line 4	40	

Part IV **Information on Your Vehicle.** Complete this part **ONLY** if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-3 to find out if you must file.

41 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ..../........../......

42 Of the total number of miles you drove your vehicle during 1994, enter the number of miles you used your vehicle for:

a Business .... b Commuting .... c Other ....

43 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

44 Was your vehicle available for use during off-duty hours? ☐ Yes ☐ No

45a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

Part V **Other Expenses.** List below business expenses not included on lines 8–26 or line 30.

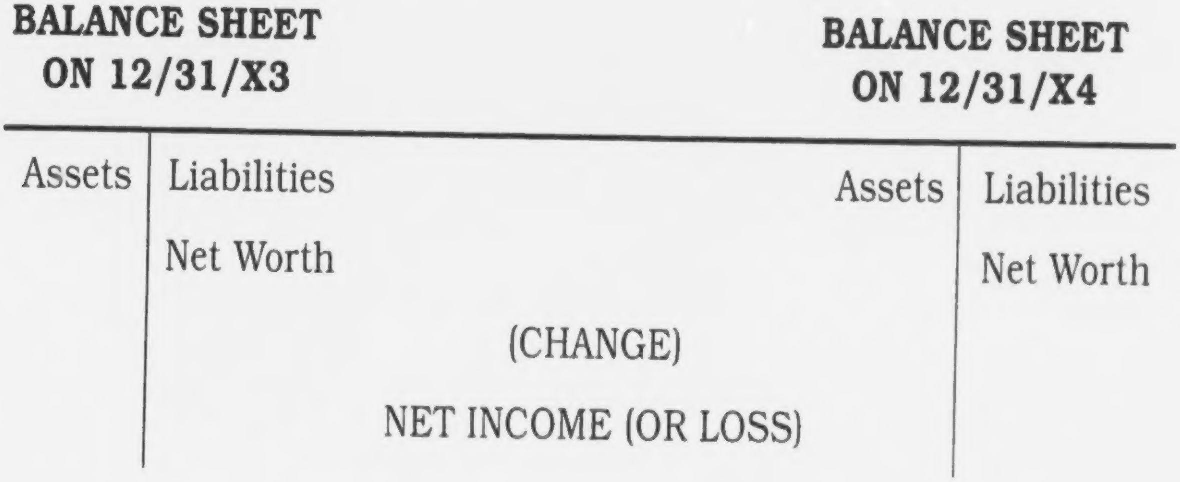
46 **Total other expenses.** Enter here and on page 1, line 27	46	

Printed on recycled paper

☆ U.S. GPO: 1994-375-198

TM 1-12

Relationship Between Balance Sheets and Income Statements



BALANCE SHEET
ON 12/31/X3

Assets | Liabilities
Net Worth

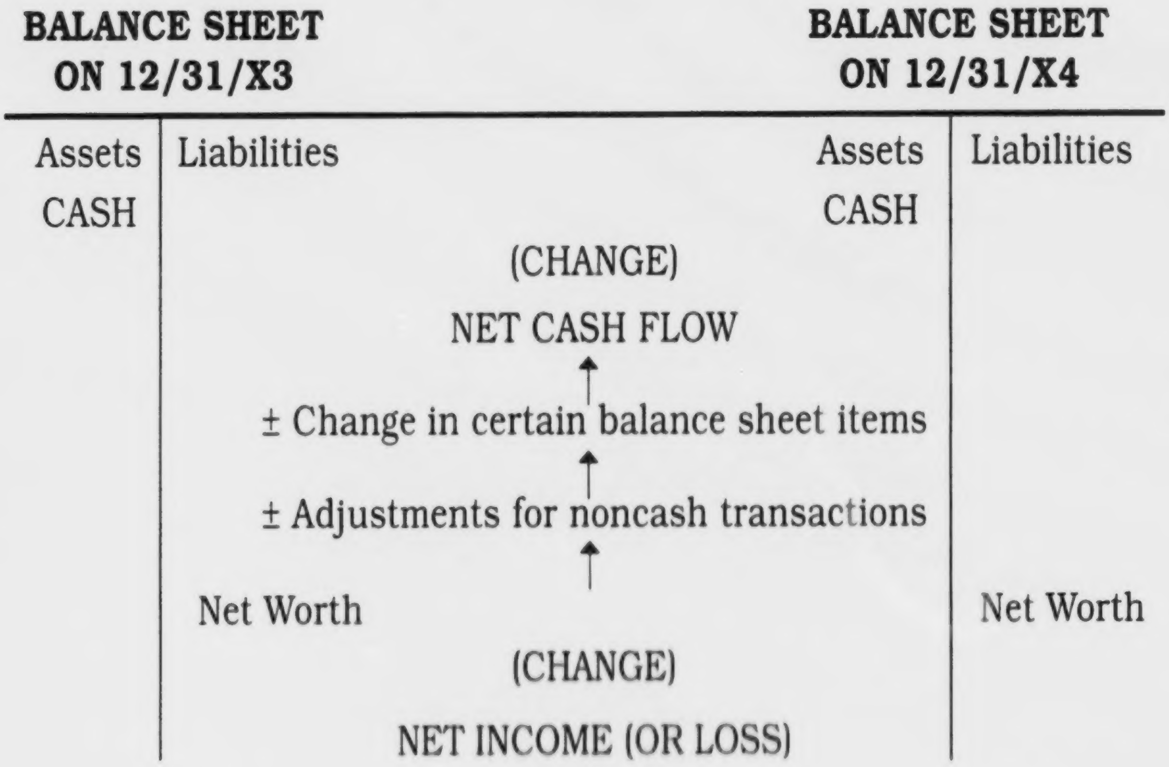
(CHANGE)

NET INCOME (OR LOSS)

BALANCE SHEET
ON 12/31/X4

Assets | Liabilities
Net Worth

Relationship among Balance Sheets, Income Statements, and Cash Flow



**BALANCE SHEET
ON 12/31/X3**

**BALANCE SHEET
ON 12/31/X4**

Assets | Liabilities

CASH

Net Worth

Assets | Liabilities

CASH

Net Worth

(CHANGE)

NET CASH FLOW

↑

± Change in certain balance sheet items

↑

± Adjustments for noncash transactions

↑

(CHANGE)

NET INCOME (OR LOSS)

TM 1-14

Four Components of Management

MARKETING

Research
Advertising
Displaying

OPERATIONS

Mixing
Baking
Packaging

FINANCE

Capital
Equity
Debt

PERSONNEL

Friendly
Helpful
Benefits

TM 1-15

How Do I Rate My Performance?

ANSWER:

Look Up – *Annual Statement Studies*
Robert Morris Associates, Philadelphia, PA

TM 1-16

My Personal Balance Sheet

__________ Date

MY ASSETS (*what I own*)

Cash on hand $ ________
Checking account balance ________
Savings accounts ________
Investments ________
Life insurance (cash value only) ________
Personal property ________
What others owe me ________
Other assets ________________ ________
Total Assets $ ________

MY LIABILITIES (*what I owe*)

Accounts payable $ ________
Credit card balances, etc. ________
Mortgages and notes ________
Other ____________________ ________
Total Liabilities (debts) $ ________
Net Worth (assets – liabilities) $ ________
Total Liabilities and Net Worth $ ________

TM 1-17

Business Balance Sheet

__________ Date

ASSETS

Cash on hand or in banks	$	________
Accounts receivable		________
Inventory		________
Land and buildings		________
Equipment		________
Other assets ____________________		________
Total Assets	$	________

LIABILITIES

Mortgage	$	________
Loans		________
Accounts payable		________
Other liabilities _________________		________
Total Liabilities (debts)	$	________
Owner's Equity (or net worth)	$	________
Total Liabilities and Owner's Equity	$	________

CHAPTER 2

The Idea of Entrepreneurship

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To develop ideas of entrepreneurship
- To compare the advantages of working for yourself or someone else
- To examine the characteristics of entrepreneurs
- To identify personal entrepreneurial characteristics

RESOURCE PEOPLE

- Entrepreneurs

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

1. Give the students a list of businesses and their organizational types. Use the collective knowledge of the students in the discussion. It is more important to generate a discussion on the different types of business organizations than on a specific business.
2. Classification is easier to determine; however, remember that many businesses operate in more than one classification.
3. The sample partnership agreement in the textbook is very detailed and more complete than most. You can use it to show how the agreement emphasizes the following:
    a. Owner protection in case of a partner's divorce or death
    b. Decision-making authority
    c. Provision for incorporation
    d. Provision for incapacitation of the active partner
    e. Provision for profit sharing
    f. Financial control
    g. Reporting to the partners
4. When discussing competitive advantages include time, place, production efficiency, lower costs, quality, customer service, and similar items.
5. Again, remind students interviewing business owners to select slow business times and to prepare their questions in advance. Ask them to give appropriate thanks to the owners, such as a note of appreciation.

TRANSPARENCY MASTERS

TM 2-1. Discuss the class goals; invite the students to contribute additional items.

TM 2-2. These are questions to direct class attention to the chapter content.

TM 2-3. Invite the students to add their observations from the case studies.

TM 2-4. Profit keeps production and services available to all.

TM 2-5. This list explains why profit is essential.

TM 2-6. Invite the students to add to this list.

TM 2-7. Challenge the students to complete the list.

TM 2-8. Copy the master and have each student answer individually. Discuss the items without reference to specific individuals.

TM 2-9. Review these characteristics with the class.

TM 2-10. Classification of business by production or services is not always clear-cut since some do both.

TM 2-11. A sole proprietorship is a one-owner business.

TM 2-12. List some cooperatives which you and your students know.

TM 2-13. Partnerships are businesses owned by more than one individual.

TM 2-14. Cooperatives are usually formed to benefit the members of a group and may be either producer or consumer oriented.

TM 2-15. Corporations are owned by shareholders who may have varying numbers of shares.

TM 2-16. These figures show the thousands of people who support each of these typical businesses.

TM 2-17. Some questions to consider as you decide on your business start-up.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Corporate downsizing and the volatile employment situation mandates worker flexibility and willingness to change jobs. Many companies have little loyalty to workers.
2. Sometimes the loss of a job is the nudge you need to strike out on your own.
3. Each student may have a different list, some may not be included in the textbook.

4., 5., and 6. Remember, the choices are not as important as the reasons why.

ANSWERS TO WORKBOOK QUESTIONS

1. Each student will have an individual list. In general, the following items will appear most frequently:
   a. I am independent.
   b. I make the decisions.
   c. All the profit is mine.
   d. I control quality.
   e. I determine the reputation of my business.
   f. I hire and fire personnel.
   g. I set prices.
2. Financial risk and long hours are the two named in the text. Each student will add to the list. Use this to understand his or her motivation.
3. Courage
4. Answers will vary.
5. May include any or all of the 12 questions appearing in the text, or students may add new ones.
6. May include any or all of the 16 listed in the text. Students may add to the list.
7. Sole proprietor or single owner, partnership or multiple owners, cooperatives designed to benefit members, and corporations based on stock share ownership
8. The major characteristics of each organizational style are:

Sole Proprietorships	**Partnerships**	**Cooperatives**	**Corporations**
Easiest to start Simplest tax basis Easy decisions No profit sharing	Divided ownership Shared decisions Shared profits Shared capital Need written agreements	Trade at market prices Dividends based on participation One member – one vote	Most involved tax basis Ownership by shares Divided control Highest start-up costs Most regulated

A more in-depth discussion appears in Chapter 21 in the textbook.

9. Market research will identify competitors; assess the demand for the product or service; and determine which licenses, capital, knowledge, and skills are needed.

ANSWERS TO WORKBOOK VOCABULARY

1. d
2. a
3. f
4. h
5. i
6. b
7. g
8. e
9. c
10. j

TM 2-1

Class Goals

Chapter 2 presents the information necessary for you to develop the following abilities:

1. To develop ideas of entrepreneurship
2. To compare the advantages of working for yourself or someone else
3. To examine the characteristics of entrepreneurs
4. To identify personal entrepreneurial characteristics

Questions to Consider

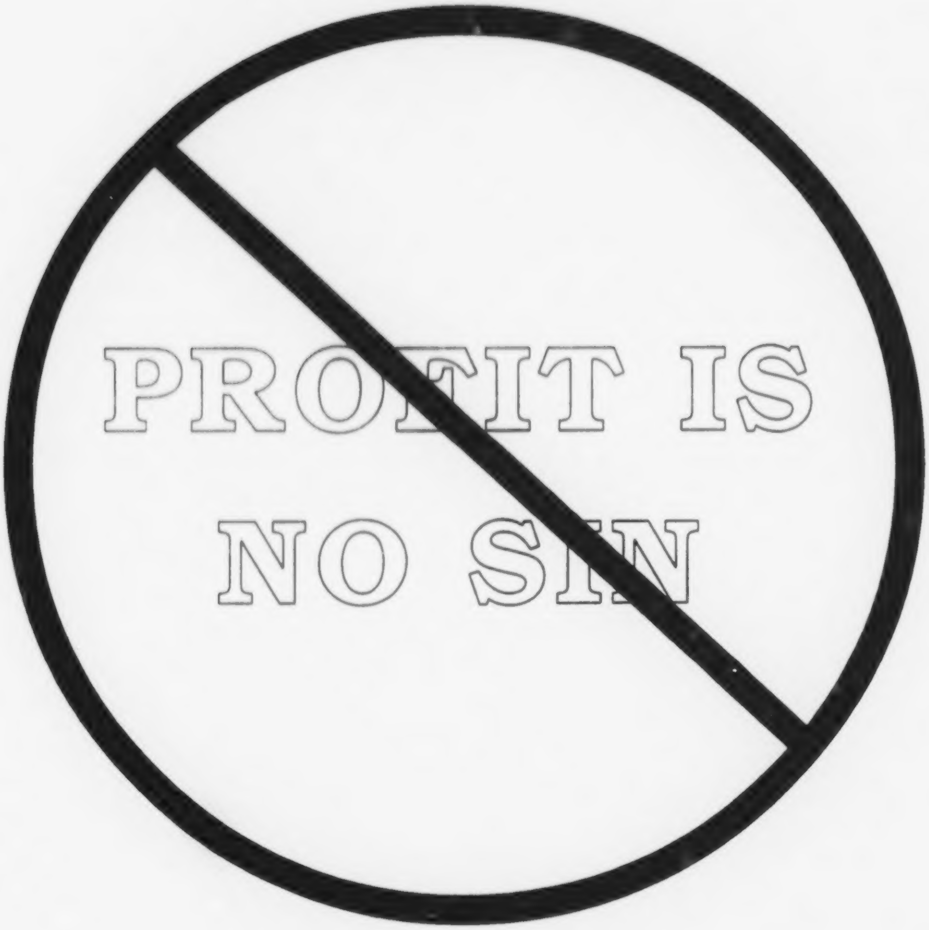
1. What are the advantages of working for You, Inc?
2. What are the disadvantages of self-employment?
3. What is the number-one reason most entrepreneurs work for themselves?
4. What are the characteristics of entrepreneurs?
5. What are the characteristics of sole proprietorships?
6. What are the characteristics of partnerships?
7. What are the characteristics of cooperatives?
8. What are the characteristics of corporations?

TM 2-3

Notes from the Case Studies

1. Companies often have little loyalty to employees.
2. One should keep a current resume.
3. The days of working for one company during one's entire career are limited.
4. Working for others does not always provide job security.
5. Willingness to change jobs may improve your working conditions.
6. Some companies use uncertainty as a management tool.
7. Great performance reviews are not directly related to job security.
8. One should always prepare a reserve for bad times.
9. A hobby may become a business.
10. Quality is always important.
11. You start where you are.
12. Single-product businesses are economically volatile.

TM 2-4



PROFIT IS
NO SIN

TM 2-5

Why Is Profit Essential to Your Company's Survival?

1. Enables expansion.
2. Compensates for risk-taking.
3. Provides return on investments by stockholders or owners.
4. Builds equity (increases net worth).
5. Is essential for perpetuating the business.
6. Provides for your retirement.

TM 2-6

Advantages of You, Inc.

1. Entrepreneurship provides independence in making decisions.
2. You have the chance to try out your better ways.
3. You have the opportunity to set your own hours.
4. The profits (or losses) are all yours.
5. You are the boss.
6. You set your company policy.
7. You determine the products or services offered.
8. You are the problem solver.
9. You control the business' reputation.
10. You employ any needed help.
11. You discharge incompetent workers.
12. You set prices.
13. You have no office politics to worry about.
14. Your decisions affect your life.
15. You get to turn out the lights!

TM 2-7

Disadvantages of You, Inc.

1. Financial risk is all yours.
2. You have long work hours.
3.
4.
5.
6.
7.
8.
9.
10.

TM 2-8

What Is My Potential?

Questions (circle yes or no)

1. Do I make decisions easily without doubting? Yes No
2. Do I act on decisions vigorously? Yes No
3. What are my favorite activities?

   Do any of these offer a good business opportunity? Yes No
4. Do I relish the challenge of a problem? Yes No
5. Do I work tirelessly at a challenge? Yes No
6. Do I take charge in a committee meeting that seems to be going nowhere? Yes No
7. If I am sure I am right, do the opinions of others matter greatly? Yes No
8. Can I work long hours and weekends to see my dream become real? Yes No
9. Am I impatient with indecision on the part of others? Yes No
10. Am I sure I can do a better job? Yes No
11. Do I like working with people? Yes No

TM 2-9

Entrepreneurial Characteristics

1. Urgent
2. Committed
3. Confident
4. Emotionally stable
5. Energetic
6. Flexible
7. Independent
8. Intense
9. Low need for status
10. Motivated
11. Optimistic
12. Organized
13. Persistent
14. Problem-solving
15. Risk-taking
16. Visionary

TM 2-10

Products	**Services**
Automobiles	Dentistry
Dairy items	Product Delivery

Dairy Queen restaurants

Dressmaking

TM 2-11

Characteristics of Sole Proprietorships

1. It is the easiest way to start a business.
2. It is the simplest business organization.
3. Management decisions are easiest to make.
4. The owner has complete control of the enterprise.
5. The owner receives all the profit (or suffers all the losses).
6. The business may be full- or part-time.
7. It is the easiest form of business to end.
8. It has the simplest tax basis.
9. The total risk is controlled by the owner.

TM 2-12

Some Cooperatives We Know

1. Ocean Spray
2.
3.
4.
5.
6.
7.
8.
9.
10.

TM 2-13

Characteristics of Partnerships

1. There is divided control of the operation.
2. The capital is divided.
3. The profits (or losses) are divided.
4. Partners bring added knowledge and skills to the business.
5. Must have a partnership agreement.
6. Each partner shares responsibility for the other partner's actions.

Characteristics of Cooperatives

1. Trading is at market prices.
2. Ownership is by current participants through stock or revolving funds.
3. One member has one vote.
4. Dividends are based on participation.

TM 2-15

Characteristics of Corporations

1. Ownership is through stock shares.
2. It is the most difficult type to start.
3. Management decisions for change are the most difficult.
4. Taxation is the most complex.
5. Shareholders elect the management.
6. Start-up costs are the highest.
7. It is subject to the most regulation.
8. Liability is limited to investment.
9. Profits are taxed twice in a regular c-corporation.

TM 2-16

Some Business and Population Facts

In 1985 there were _____ thousand people for each of the following businesses:

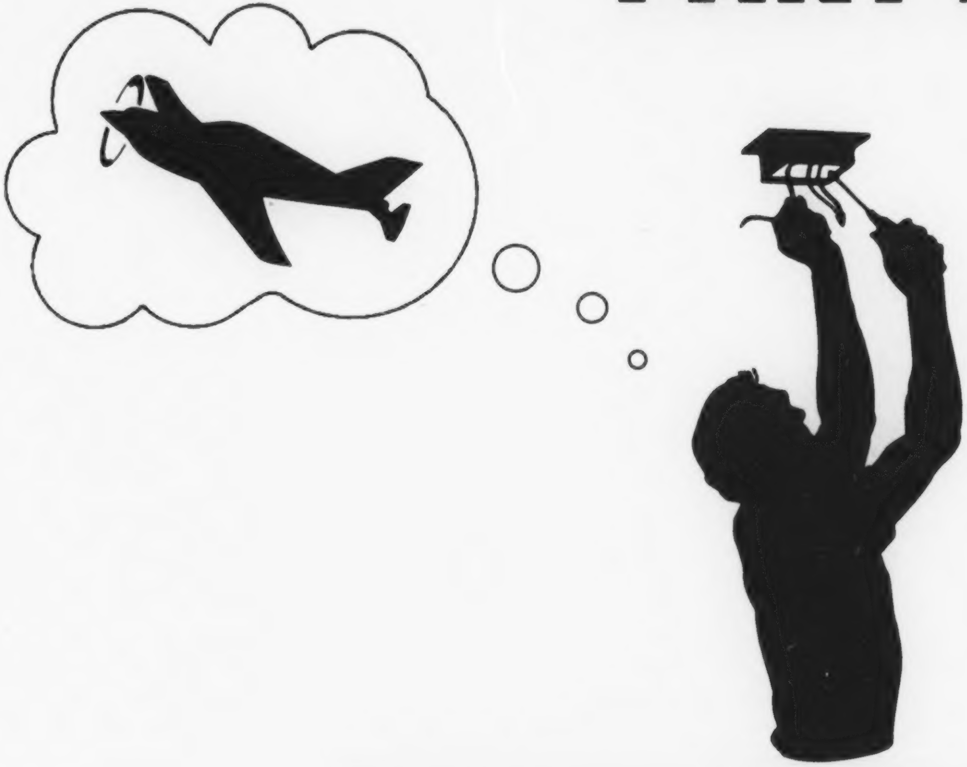
46	Dairy products
5	Drugs
11	Florists
12	Hardware
2	Grocery
50	Motorcycle dealers
30	Nursery – lawn and garden
2	Restaurants
13	Used merchandise

TM 2-17

Questions to Ask Yourself

1. Who are your competitors?
2. How will you compete? On price? On quality? On service?
3. Can you identify a sustainable competitive advantage?
4. What licenses and permits will you need?
5. Will a new or innovative product or service appeal to potential customers?
6. Do you have the needed knowledge for the business of choice?
7. Do you have the needed skills?
8. Do you have, or can you obtain the needed capital?

PART II



Planning for Entrepreneurship

CHAPTER 3

The Idea of Goal Setting

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To set and organize goals
- To inventory time usage
- To utilize available time productively
- To learn time management skills

RESOURCE PERSON

- A business executive – invite as a guest speaker

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

1. To acquaint the class with this task, make copies of TM 3-3 and have each student record his or her day's activities at each indicated hour.
2. Have each student complete a week's activities and summarize the totals.
3. Encourage the students to identify time available for a new venture.

TRANSPARENCY MASTERS

TM 3-1. Present the class goals for the chapter.

TM 3-2. Use these questions to guide discussion of the chapter content.

TM 3-3. Make enough copies of this TM so each student can do a time usage inventory.

TM 3-4. Discuss the notes from the case studies; encourage additional insights.

TM 3-5. Present this brief list of entrepreneurial motivations. Ask the class to suggest other reasons for becoming an entrepreneur.

TM 3-6. Are you a dreamer or a doer? Discuss the differences.

TM 3-7. Discuss the definition of immediate, short-term and long-term goals. Give examples of each.

TM 3-8. Discuss the way to set goals and plan for your dreams.

TM 3-9. Have the students take this self-test for procrastination.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. A goal is something you want to accomplish.
2. We should set goals every day.
3. Good goals are realistic, challenging, worthwhile, and attainable.
4. Priorities are those goals or tasks which are important to you and your business and must be accomplished in a timely fashion.
5. Evaluate your list of goals in terms of time required to accomplish them, their importance to you, and their effect on your family.
6. Motivation is something which causes us to act; for example – money, material possessions, respect, authority over others, self-satisfaction, and recognition by others.
7. Goal setting is a skill, not everyone has this skill; fear of failure stops some; and inertia keeps others "going with the flow" and doing what feels comfortable. Suggest your students come up with additional reasons.
8. While dreaming you list everything you might want to do. In realistic goal setting you apply facts in your evaluations.

ANSWERS TO WORKBOOK QUESTIONS

1. Something that causes us to act – it may be physical, financial, or emotional.
2. Money, respect, material possessions, recognition by others, authority over others, or self-satisfaction
3. Any of the items listed in answer 2
4. It is a developed skill – you decide where you want to go in life and plan how to get there.
5. Immediate, short-term, and long-term
6. Follow this procedure:
    a. Ask yourself when you want to accomplish certain things in your life.
    b. List your goals.
    c. Organize your goals.
    d. Evaluate your list of goals.
    e. Consider your family and how these actions will affect them.
    f. Reevaluate your goals regularly.
7. Procrastination, fear of failure, no knowledge of how to set goals – no goal-setting skills
8. You must do the following:
    a. Overcome procrastination.
    b. Implement goal-setting habits.
    c. Learn new work habits.
    d. Break big jobs into smaller ones.

9. Realistic, challenging, and attainable
10. Any three of the following:
    a. Postponing tasks until the last moment
    b. Saying "I work better under pressure"
    c. Avoiding new tasks
    d. Disliking the start of a big job
    e. Saying "I don't have enough time right now"
    f. Doing the easy tasks and avoiding the difficult
    g. Avoiding tasks that could fail
    h. Overindulging in socializing, recreational reading, movies, TV, and similar pastimes
11. Follow these steps:
    a. Just do it.
    b. Learn time management skills.
    c. Have someone monitor your performance.

ANSWERS TO WORKBOOK VOCABULARY

1. c
2. n
3. j
4. h
5. a
6. m
7. f
8. i
9. b
10. e
11. l
12. o
13. d
14. g
15. k

TM 3-1

Class Goals

Chapter 3 presents the information necessary for you to develop the following abilities:

1. To set and organize goals
2. To inventory time usage
3. To utilize available time productively
4. To learn time management skills

Questions to Consider

1. What is goal setting?
2. What are six motivational factors which influence human behavior?
3. Why is goal setting important?
4. What are three goal-setting habits?
5. How do I form new goal-setting habits?
6. What is procrastination?
7. How should I attack procrastination?

TM 3-3

How I Used My Time Today

Activities	Sleep	Meals	Travel	Work	Hobbies	TV	Family	Study	Reading		
12-1 am											
1-2 am											
2-3 am											
3-4 am											
4-5 am											
5-6 am											
6-7 am											
7-8 am											
8-9 am											
9-10 am											
10-11 am											
11-12 am											
12-1 p.m.											
1-2 p.m.											
2-3 p.m.											
3-4 p.m.											
4-5 p.m.											
5-6 p.m.											
6-7 p.m.											
7-8 p.m.											
8-9 p.m.											
9-10 p.m.											
10-11 p.m.											
11-12 p.m.											

Put check marks in the columns to indicate what you are doing during each hour of the day for each day of the week. Use a blue pen for weekdays and red for the weekend.

Notes from the Case Studies

1. Both young men had goals.
2. Both young men worked for their goals.
3. Krys' goal was a new sports car.
4. Krys' goal was short-term and short-sighted.
5. Con's goal was to fly his own plane.
6. Con's goal was future-oriented and more farsighted.
7. Each of us are motivated by different goals.
8. Krys derived immediate satisfaction from his purchase.
9. Con's goal took longer for satisfaction.
10. Con built a growing business on something he liked doing.

TM 3-5

Entrepreneurial Motivation

1. Money
2. Material possessions
3. Recognition by others
4. Authority over others
5. Respect
6. Self-satisfaction

TM 3-6

Are You a

DREAMER

or a

DOER?

TM 3-7

Defining Goals

1. Immediate - something to be accomplished now or within a short time
2. Short-term - to be accomplished in a year or so
3. Long-term - to be achieved in five or more years

TM 3-8

Plan Your Dream

1. Question - what do you want to accomplish?
2. Record - write down everything.
3. Organize - group the goals by time required.
4. Evaluate - eliminate the unimportant.
5. Consider your family - how do your goals affect them?
6. Reevaluate regularly - new information can change goals.

Your resulting list will be challenging and attainable.

TM 3-9

Self-Test for Procrastination

Do I – (circle yes or no)

1. Put things off until the last moment? Yes No
2. Say I work better under pressure? Yes No
3. Avoid doing new tasks? Yes No
4. Hate starting a big job? Yes No
5. Say I don't have enough time right now? Yes No
6. Do the easy jobs and avoid the difficult? Yes No
7. Avoid doing things that could fail? Yes No
8. Overindulge in socializing, recreational reading, movies, TV, and similar pastimes? Yes No

CHAPTER 4

Considering the Alternatives

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify reasons for purchasing a business
- To identify the advantages of starting from scratch
- To identify the problems of starting from scratch
- To identify the advantages and disadvantages of a franchised business
- To understand the ways most enterprises get started
- To evaluate a business for purchase

RESOURCE PEOPLE

1. Owner of a purchased business
2. Owner who started from scratch
3. Owner of a franchised business

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Have students obtain the local real estate magazine and the Sunday edition of a large city newspaper. Direct them to the broker who sells the most businesses.

TRANSPARENCY MASTERS

TM 4-1. Discuss the class goals with the students; ask for suggestions.

TM 4-2. Ask the students to add to these questions.

TM 4-3. Invite the students to make additional observations.

TM 4-4. Discuss these well-known franchises.

TM 4-5. Discuss how logos like these help businesses get recognition.

TM 4-6. Ask students to suggest possible market niches for various businesses.

TM 4-7. Ask the students to suggest additional advantages.

TM 4-8. Ask the students to suggest additional disadvantages.

TM 4-9. Ask the students to suggest additional advantages.

TM 4-10. Ask the students to suggest additional disadvantages.

TM 4-11. Ask the students to suggest additional advantages.

TM 4-12. Ask the students to suggest additional disadvantages.

TM 4-13. Ask the students to add to this list of stressors.

TM 4-14. Be sure to ask these questions about a business start-up.

TM 4-15. Scout out the possibilities, then proceed.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. A supportive family is a strong asset to the beginning entrepreneur in terms of physical, psychological, and financial support.
2. Consigned articles are paid for when they are sold.
3. Any of the following:
    a. customers
    b. name recognition
    c. suppliers
    d. licenses and permits
    e. local compliance
    f. easier projections
    g. records
    h. employees
    i. equipment
    j. location
    k. facilities
    l. elimination of one competitor
4. Each student will have his or her own list – the reasons why are the most important.
5. Each student will have his or her own list – the reasons why are the most important.
6. Each student will have his or her own list – the reasons why are the most important.
7. Franchises are internationally recognized; for example – McDonald's in Moscow.
8. Yes – page 41 in the text lists 13 important questions to ask when considering the purchase of a business.

ANSWERS TO WORKBOOK QUESTIONS

1. **ADVANTAGES**

Business has established customers.
Business has recognized name.
Suppliers know the business.
Cash flow projections are easier.
Past records help decision making.
Local ordinances have been satisfied.
Previous owners can tell you about necessary licenses and permits.
Inventory projections are easier.
Employees can provide valuable information.
Employees are experienced.
Business equipment is already in use.
Location and facilities are set.
One competitor is eliminated.

DISADVANTAGES

Wage scale is in place.
Current employees may have preset attitudes.
Equipment may be obsolete.
Business may be poorly located.
Business may have a poor public image.
There are existing company policies.
Existing employee habits may present problems.
Inventories may be unsuitable.

2. **ADVANTAGES**

You can use your creativity.
You select the location.
You hire and train the employees.
You create the business image.
You select the suppliers.
You determine the market niche.
There is no reputation to repair.
You have no policies to change.
You establish the wages.

DISADVANTAGES

There may be a loss of faith in the enterprise.
You select the equipment and facilities.
There are sacrifices from your family members.
There is a cash drought at the start-up.
Commitments can cause stress.
Problems are not anticipated.
There may be marital problems due to lack of time together.
There may be marital problems due to finances.
There may be mental or physical problems due to stress.

3. Advantages include the following:
   a. Name recognition
   b. National advertising
   c. Uniform quality control
   d. Management support
   e. Supplies from one source

4. Disadvantages include cost and control.

5. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. c
2. e
3. f
4. h
5. a
6. g
7. b
8. d

TM 4-1

Class Goals

Chapter 4 presents the information necessary for you to develop the following abilities:

1. To identify reasons for purchasing a business
2. To identify the advantages of starting from scratch
3. To identify the problems of starting from scratch
4. To identify the advantages and disadvantages of a franchised business
5. To understand the ways most enterprises get started
6. To evaluate a business for purchase

TM 4-2

Questions to Consider

1. What are the advantages of purchasing an existing business?
2. What are disadvantages of purchasing an existing business?
3. What are the advantages of starting from scratch?
4. What are the disadvantages of starting from scratch?
5. How do I evaluate a business I might purchase?
6. What are the advantages of owning a franchised business?
7. What are disadvantages of owning a franchised business?

TM 4-3

Notes from the Case Study

1. A support team is always important to the beginning entrepreneur.
2. People are willing to help young people interested in their field.
3. Many people find it best to start their businesses from scratch.
4. Family labor often helps a beginning entrepreneur.
5. Family funds often provide start-up capital.
6. Suppliers can sometimes be found who will provide merchandise on a consignment basis.
7. Customer loyalty is valuable to a new business.
8. Junita waited until the business was growing before borrowing money from her grandfather.
9. Junita learned the craft business by working with Bess.
10. The two businesswomen helped each other – each tending store when the other needed to be away.

TM 4-4

Some Well-Known Franchises

MacDonald's

Burger King

Pepsi Cola

Bob Evans

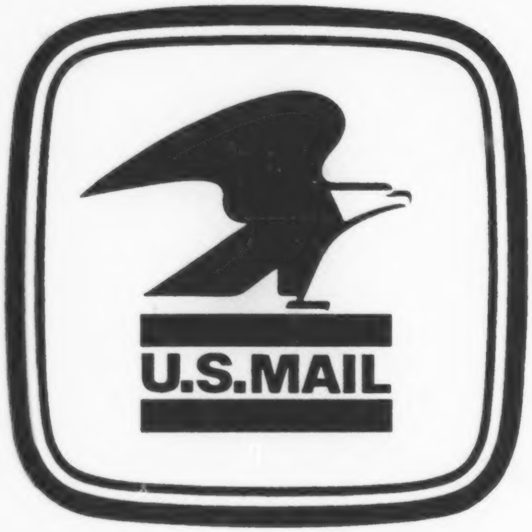
Dairy Queen

Coca-Cola

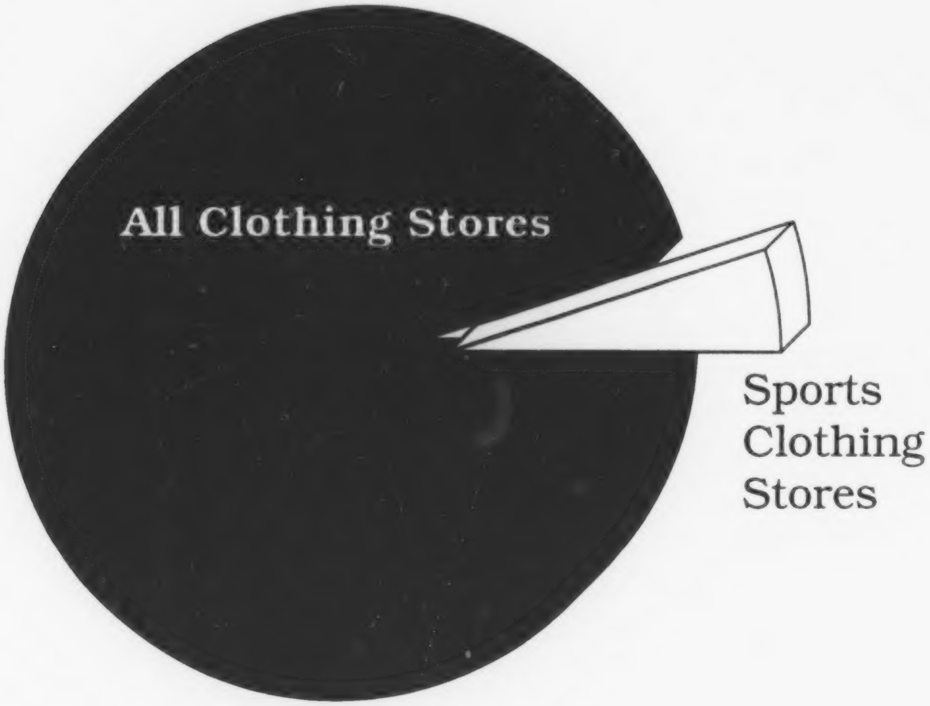
Denny's

TM 4-5

Logos You Know



A Market Niche



Can you identify a
market niche for your business?

Advantages of a Purchased Business

1. The business already has customers.
2. The business has name recognition.
3. Suppliers know the business.
4. Local ordinances have been satisfied.
5. The previous owners can tell you about necessary licenses and permits.
6. Inventory and cash flow projections are easier to make.
7. Past records can help in decision making.
8. Employees can provide information.
9. Employees are experienced.
10. Business equipment is already in use.
11. The location and facilities are set.
12. Buying a business eliminates one competitor.

Disadvantages of a Purchase

1. Wage scales are in place.
2. There are existing company policies.
3. Existing employee attitudes and habits may present problems.
4. Existing public image may be hard to change.
5. Existing equipment may be obsolete.
6. Existing location may not be the best.
7. Existing inventories may be unsuitable.

TM 4-9

Advantages of Starting from Scratch

1. You can be creative.
2. You select the appropriate location.
3. You select the equipment and arrange the facilities.
4. You hire employees and train them in your philosophy.
5. You create the business image.
6. You select suppliers, thus determining quality.
7. You determine the market niche.
8. You have no negative reputation to repair.
9. You have no policies to change.
10. You have no established wages or benefits to consider.

TM 4-10

Disadvantages of Starting from Scratch

1. There is the risk of losing personal assets pledged to secure the business loan.
2. Sacrifices are expected from family members.
3. There is a cash drought at the start-up until sales bring in money.
4. The need to meet payroll and other commitments can cause stress.
5. Unanticipated problems may delay cash flow.
6. Marital problems can stem from other time commitments.
7. Marital problems can stem from financial hardships.
8. Stressors can cause mental or physical problems.
9. There may be a loss of faith in the enterprise due to cash problems.

TM 4-11

Advantages of a Franchise

1. Name recognition
2. National advertising
3. Uniform quality control
4. Management support
5. Supplies come from one source

TM 4-12

Disadvantages of a Franchise

1. Cost
2. Control
3. Look-alike buildings
4. One source of materials

TM 4-13

Stressors

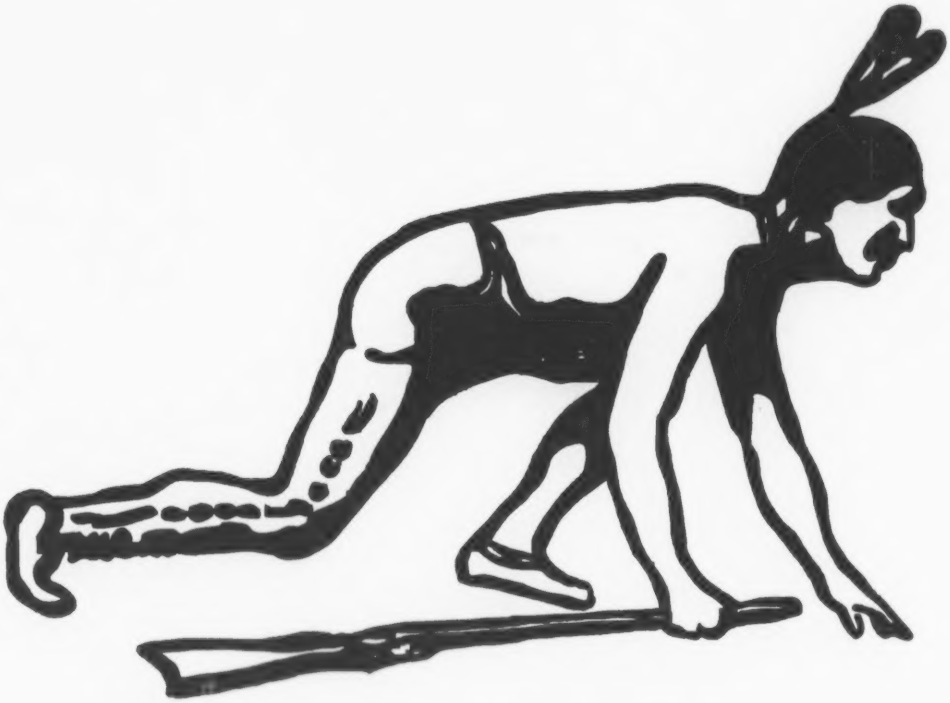
1. Time commitments
2. Finances
3. Family and marriage

Questions to Ask

1. Why is the business for sale?
2. Will the owner partially finance the purchase, or rent the facilities with an option to buy?
3. Is the business seasonal?
4. Is the business well managed?
5. How many of the deficiencies noted in the business' operation can you correct?
6. Can you obtain the needed finances?
7. Is the location advantageous?
8. Will the clientele accept new ownership?
9. Do you have, or can you get the needed skills for that business?
10. Have you and your accountant looked at the last three years' records and tax returns?
11. Did the business grant credit to customers? If so, can you continue this policy?
12. Is the business profitable?
13. How can you improve the profit potential?

TM 4-15

Take a Hard Look



Scout out the possibilities!

CHAPTER 5

Reviewing the Start-Up Plans of Others

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify the contents of a business plan
- To identify strengths and weaknesses of a specific plan

RESOURCE PEOPLE

1. SCORE chapter members
2. SBDC personnel

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Ask the local SCORE chapter or SBDC office for help in obtaining plans of recent start-ups. Be sure you have the owner's permission to use the plan in class.

TRANSPARENCY MASTERS

TM 5-1. Start with the class goals; ask the students to make suggestions.

TM 5-2. Using a piece of paper, cover the questions while projecting this TM. Invite the students to suggest questions.

TM 5-3. Ask the students for any additional observations.

TM 5-4. Explain that fixed costs occur regardless of sales or production activities. Sometimes they are called indirect costs.

TM 5-5. Variable costs are those that can be traced directly to the product or service. Sometimes they are called direct costs.

TM 5-6. These are the components of a business plan. The details appear as additional transparencies.

TM 5-7. These are the business description components.

TM 5-8. These are the financial components.

TM 5-9. Use this form to demonstrate measuring available personal resources.

TM 5-10. This is the business goals section. Explain what kind of information is needed to answer these questions.

TM 5-11. Explain why each of these questions is important when selecting a location for your business.

TM 5-12. Discuss why each of these questions is important when choosing your product or service.

TM 5-13. Ask the students why these questions are important when evaluating your competition.

TM 5-14. Review Beth's business plan with the students. Ask them to fill in the blanks.

TM 5-15. Practice completing this cash flow projection form.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. The business plan communicates your vision to others and serves as your road map to success.
2. Business description items include the following:
    a. Your resources
    b. Your goals
    c. Your location
    d. Your product or service
    e. Your competition
    f. Your market and how you will penetrate it
    g. What regulations will affect the business
    h. Your marketing plan
    i. Your employees
    j. Your management organization

    Financial items include the following:

    a. Balance sheet
    b. Income projections
    c. Cash flow projection
    d. Capital equipment list
    e. Funding sources
    f. Application of funds
    g. Past financial reports

3. & 4. Each student will have his or her own list. Evaluate them on the basis of quality and thoroughness.

ANSWERS TO WORKBOOK QUESTIONS

1. The road map
2. The advantages include:
    a. You can share your vision with your spouse and others.
    b. You can develop financial budgets.
    c. You can organize daily activities.
3. A business owner may not get conventional bank loans. This procedure may attract business partner(s) who will also provide expertise.

4. Disadvantages can include the following:
    - a. Creates ill will.
    - b. Family members may expect to have share of ownership.
    - c. Family members may give unsolicited advice.
5. Anticipate management demands, provision of expertise, and plan changes. They may even want a controlling interest.
6. These features can include the following:
    - a. Beth has experience.
    - b. Family labor is available.
    - c. Beth has her spouse's support.
    - d. Beth could get adequate financing.
    - e. It is an established business.
7. These answers are not directly covered in the text, so student answers will vary. The following are probably the most obvious:
    - a. Business property is rented – how secure are the lease and rental amounts?
    - b. Can sales be increased?
    - c. Will customers continue their patronage?
8. These answers are not directly covered in the text, so student answers will vary. The following are probably the most obvious:
    - a. Cash flow projections are based on previous records.
    - b. Beth is aware of seasonal sales trends.
    - c. Beth can plan the purchase of inventory based on its perishable nature.

ANSWERS TO WORKBOOK VOCABULARY

1. n
2. d
3. m
4. a
5. f
6. r
7. o
8. k
9. b
10. q
11. h
12. j
13. g
14. c
15. l
16. p
17. e
18. i

TM 5-1

Class Goals

Chapter 5 presents the information necessary for you to develop the following abilities:

1. To identify the contents of a business plan
2. To identify strengths and weaknesses of a specific plan

TM 5-2

Questions to Consider

1. What are the components of a business plan?
2. How does a business plan help me?
3. How do fixed and variable costs differ?
4. What budgets do I need in my plan?
5. How do equity and debt financing differ?
6. What are sources of start-up capital?
7. What are the disadvantages of borrowing from family members?
8. When should I consider borrowing from venture capitalists?
9. In Beth's plan, what were her mind, muscle, and money resources?
10. How do I secure financial backing for my business?

TM 5-3

Notes from the Case Study

1. SCORE is a national network of men and women who are available for advising budding entrepreneurs.
2. Careful study pays off when selecting a business location.
3. Most successful malls have a major national retail store.
4. Her SCORE advisors pointed out the fallacies in Georgette's plan.
5. The advice helped Georgette fine-tune her plan.
6. Mall managers review the business plans of potential tenants to reduce turnover rates.
7. One's spouse is a powerful support when starting a business.
8. Georgette worked her plan, and her plan worked!

TM 5-4

Fixed Costs

1. Rent or mortgage
2. Utilities, water, gas, sewage, telephone, and electricity
3. Licenses and permits
4. Property taxes

TM 5-5

Variable Costs

1. Raw materials
2. Consumable supplies for service or production
3. Hourly wages
4. Commissions

TM 5-6

Business Plan Components

1. Business description items
2. Financial items

TM 5-7

Business Description Items

1. Resources
2. Goals
3. Location
4. Product or service
5. Competition
6. Market
7. Laws and regulations
8. Employees
9. Business or management organization

Financial Items

1. Balance sheet
2. Income projections
3. Cash flow projection
4. Capital equipment list
5. Sources of funding
6. Application of funds
7. Past financial reports

TM 5-9

My Personal Balance Sheet

My Assets (What I Own) __________ Date

Cash on hand $ __________

Checking account balance __________

Savings accounts __________

Investments __________

Life insurance (cash value only) __________

Personal property __________

What others owe me __________

Other assets ______________________ __________

Total Assets $ __________

My Liabilities (What I Owe)

Accounts payable $ __________

Credit card balances, etc. __________

Mortgages and notes __________

Other ____________________________ __________

Total Liabilities (debts) $ __________

Net Worth (assets – liabilities) $ __________

Total Liabilities & Net Worth $ __________

TM 5-10

Business Plan Goals

Questions this section must answer:

1. What are your plans for the business?
2. Will you subsidize it with your mind, muscle, or money resources?
3. When will you need to draw funds out of the business?
4. How much time and energy can you commit to it and for how long?
5. Do you want surplus funds to expand the business or do you expect to withdraw surplus funds?

TM 5-11

Location

Consider these questions:

1. Where will you operate your business?
2. Can the business grow in this location?
3. Are the needed services available?
4. Is parking available?

TM 5-12

Your Product or Service

1. How can you convince people to use your product or service?
2. Will people want your product or service?
3. Are people buying this product or service now?
4. Is your product or service a necessity or a luxury to your target audience?
5. How does the economic outlook affect your product or service?
6. Will people continue to want or need your product or service?
7. When will new technology make your product or service obsolete?

TM 5-13

Competition

1. What is the nature of competition in your chosen area?
2. What will be your sustainable competitive advantage?
3. Will you compete on price?
4. Will you compete on quality?
5. Will you compete on uniqueness?
6. Will you compete on service?

Your Marketing Plan

Legal Items

Employees

TM 5-14

Reviewing Beth's Plan

Mind Resources

1.
2.
3.
4.

Muscle Resources

1.
2.
3.
4.

Money Resources

1.
2.

TM 5-15

Me, Inc.
Cash Flow Forecast

Item	**July**	**Aug.**	**Sept. -**	**June**
Beginning balance				
Sales receipts				
Available cash				
Wages				
Taxes				
Supplies				
Services				
Utilities				
Total disbursements				
Ending Balance				

CHAPTER 6

Solving the Location Puzzle

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify the advantages of a location
- To identify the disadvantages of a location

RESOURCE PEOPLE

1. SBDC personnel
2. SCORE members

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Note that not all businesses are easily identified. One of the best sources for this information is one of the competitors. Have each student select a different product or service to research.

Collect advertising supplements from local papers for the basis for price competition study.

TRANSPARENCY MASTERS

TM 6-1. Discuss the class goals and invite additions from the students.

TM 6-2. Review these questions which the chapter helps answer. Again, invite additions from students.

TM 6-3. Invite students to add to these notes from the case studies.

TM 6-4. Location is important!

TM 6-5. These are some of the reasons why location is so important.

TM 6-6. Discuss the importance of surrounding businesses to store traffic.

TM 6-7. Destination trips are not as critical for adjacent businesses.

TM 6-8. Nearby parking is always beneficial to a store's business.

TM 6-9. Most successful malls have anchor stores.

TM 6-10. Help students identify the types of customers they will serve by defining a customer profile.

TM 6-11. Consider these items when selecting a business location.

TM 6-12. Have the students list the criteria for selecting a business location.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Location, location, and location!
2. Patrons with an interest in historical things and money to spend would be a good customer profile for a dealer of antiques.
3. A good example is a dealer of antiques locating in an antique mall. The other antique businesses attract shoppers looking for similar products and services.

ANSWERS TO WORKBOOK QUESTIONS

1. Realtor and successful business owner/friend
2. Real estate broker
3. Answers will vary with the type of business planned.
4. Other area businesses, location, location, and location
5. Answers can include the following:
    a. Public transportation or adequate parking must be available.
    b. Location must be easy and safe to access.
    c. Business must be visible to attract drop-by business.
    d. Business must be conveniently located.
    e. Related businesses must be located nearby to increase store traffic.
    f. Business locations must meet local ordinances.
    g. Some businesses must locate near sources of supplies or raw materials to lower transportation costs.
    h. Quality of location is influenced by competition in the area.
    i. Location costs must be balanced with location benefits.
    j. Zoning laws affect a business' location.
    k. Future growth and expansion affect selection of a location.
    l. Customer demographics may be important in selection of a location.

ANSWERS TO WORKBOOK VOCABULARY

1. i
2. b
3. c
4. e
5. a
6. g
7. h
8. f
9. d

TM 6-1

Class Goals

Chapter 6 presents the information necessary for you to develop the following abilities:

1. To identify the advantages of a location
2. To identify the disadvantages of a location

TM 6-2

Questions to Consider

1. What are three considerations when selecting a business location?
2. How do I get traffic information about a specific location?
3. Will an anchor store be critical to my business success?
4. What is the typical customer profile for my business?
5. How do I compare costs of two suitable locations?
6. What are four concerns I should have when selecting a location?

TM 6-3

Notes from the Case Studies

1. A business location must be easily accessible.
2. A business location needs to be where people travel.
3. A business location needs to be visible.
4. Better locations command higher rents.
5. Other businesses in the area help develop store traffic.
6. Location should be carefully researched before making a selection.
7. Location within a city may be more important than the city itself.
8. A change in location may discourage loyal customers.
9. Traffic can be a detractor as well as an advantage.
10. Knowing when to make a location change is an excellent management skill.
11. Profitability depends on many factors besides location.
12. Convenience is an important element of location.
13. The quality or desirability of a location can change over time.
14. Location is more important for some types of businesses than for others.

TM 6-4

What Is Really Important?

LOCATION

LOCATION

AND LOCATION!

TM 6-5

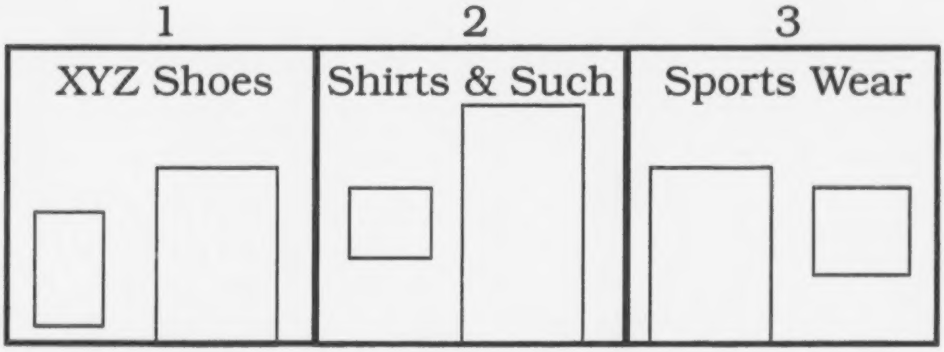
Reasons Why Location Is Important

1. Public transportation or adequate parking must be available.
2. Location must be easy and safe to access.
3. Business must be visible to attract drop-by business.
4. Business must be conveniently located.
5. Related businesses must be located nearby to increase store traffic.
6. Business locations must meet local ordinances.
7. Some businesses must locate near sources of supplies or raw materials to lower transportation costs.
8. Quality of location is influenced by competition in the area.
9. Location costs must be balanced with location benefits.
10. Zoning laws affect a business' location.
11. Future growth and expansion affect selection of a location.
12. Customer demographics may be important in selection of a location.

TM 6-6

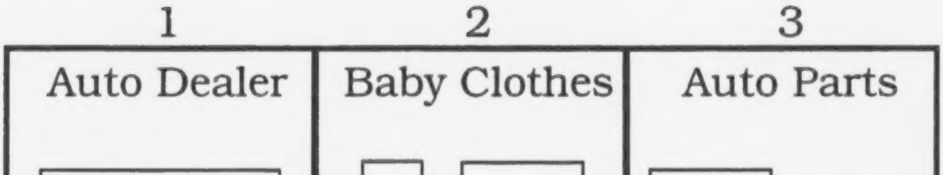
Which Store Has the Best Location?

STORE 1?


1
2
3
XYZ Shoes
Shirts & Such
Sports Wear

or

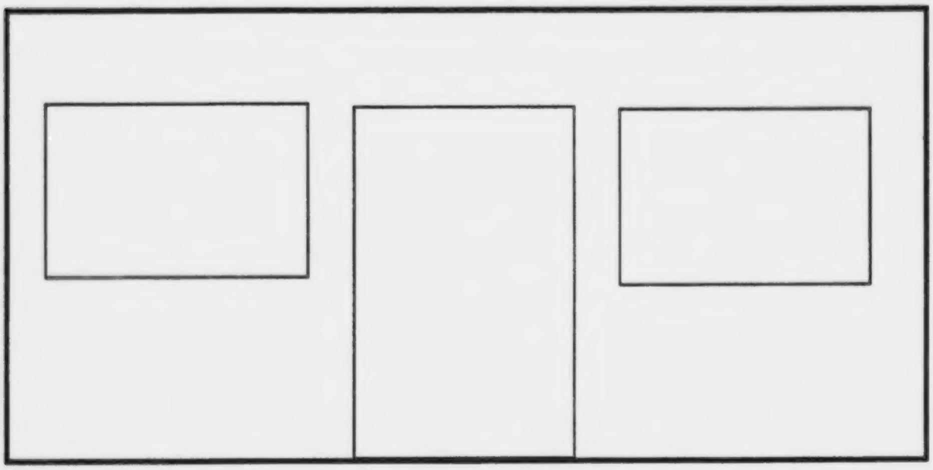
STORE 2?


1
2
3
Auto Dealer
Baby Clothes
Auto Parts

TM 6-7

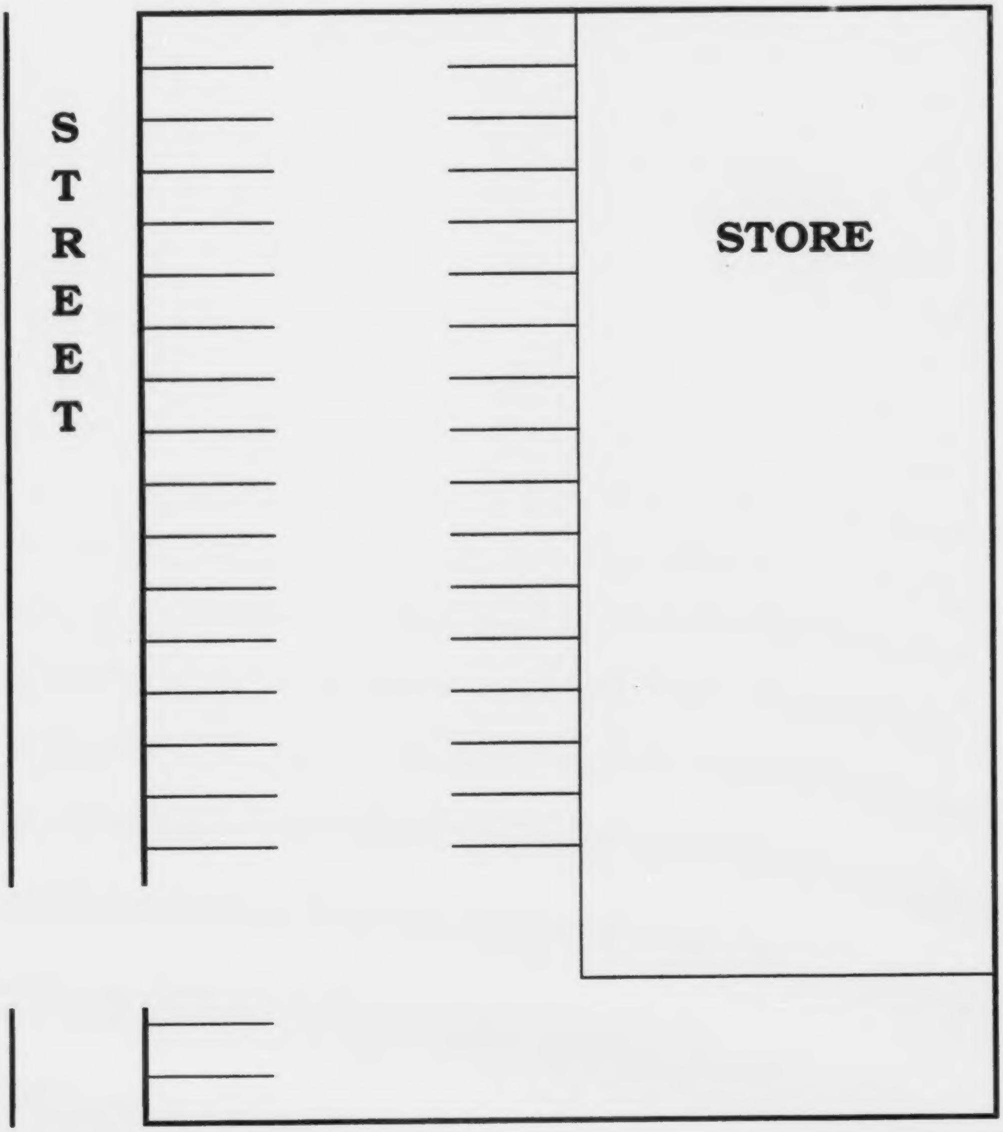
A Typical Destination Trip

Lums Lumber Company



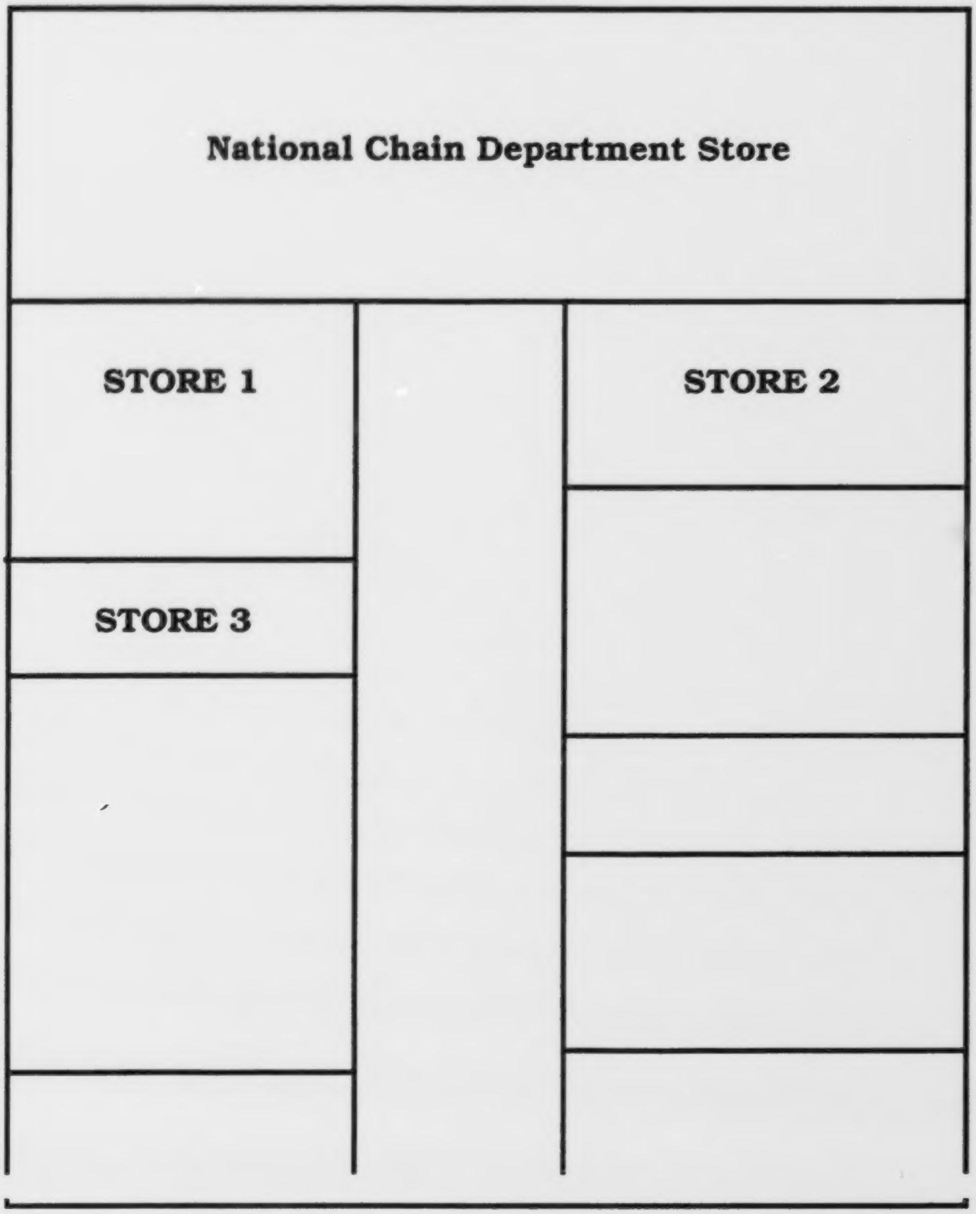
TM 6-8

Parking Is a Plus


STREET
STORE

TM 6-9

The Anchor Store


National Chain Department Store
STORE 1
STORE 2
STORE 3

TM 6-10

My Customer's Profile

1.

2.

3.

4.

5.

6.

7.

8.

TM 6-11

Considerations When Selecting a Location

1. Have other tenants in the area been there a long time?
2. Have similar businesses prospered in the area?
3. Are the landlords concerned about their tenants' well-being?
4. Are the properties well maintained?

TM 6-12

Criteria for Selecting a Location

1.

2.

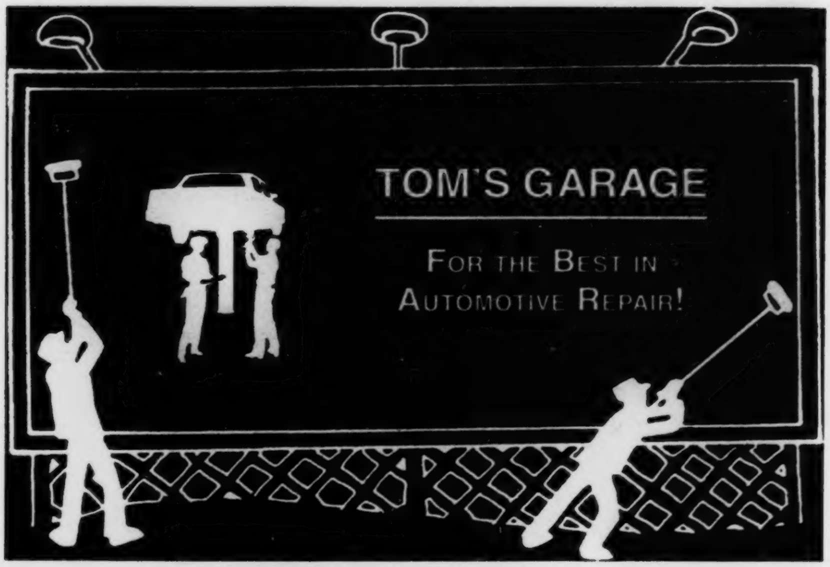
3.

4.

5.

6.

PART III


TOM'S GARAGE
FOR THE BEST IN AUTOMOTIVE REPAIR!

Marketing Your Product or Service

CHAPTER 7

Becoming a Competitor

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify ways of competing
- To identify competitors
- To identify a competitive advantage

RESOURCE PEOPLE

1. Entrepreneur in a very competitive business
2. Advertising manager of a media outlet

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

1. People in a specific business are a good source of information concerning their competitors.
2. Collect the advertising supplements from area newspapers to research the price competition.

TRANSPARENCY MASTERS

TM 7-1. Discuss class goals and invite students to make suggestions.

TM 7-2. Invite students to suggest additional questions.

TM 7-3. Invite students to make additional observations.

TM 7-4. Supply and demand concepts are often confusing. Use this transparency to clarify the demand concept for your students.

TM 7-5. These are just some of the things that shift demand.

TM 7-6. Supply and demand concepts are often confusing. Use this transparency to clarify the supply concept for your students.

TM 7-7. Ask the students how they can compete as low-cost producers.

TM 7-8. Ask the students to suggest a list of things which shift supply.

TM 7-9. Use this list or ask the students to suggest a list.

TM 7-10. Ask the students to suggest factors which can influence price.

TM 7-11. Discuss how competitive advantages can occur in service, quality, and price.

TM 7-12. Ask the students to list their individual competitive advantages. Their answers should include some of the following:

1. Greet your customers.
2. Smile, it is an oil that lubricates human contacts.
3. Learn your customers' names.
4. Provide more product, quality, or service than customers expect; they will love you for it.
5. Learn how your customers use your product.
6. Provide information on how your product and others you supply can improve that use.
7. If your store doesn't have an item that your customers want, refer them to one that does.
8. Respond quickly to a request for help.
9. If you don't know an answer, volunteer to obtain the information and report back immediately.
10. Follow up all sales and inquiries.
11. Train all your employees in these skills.
12. Reward good service from your employees.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. If you eat a hamburger, it is a consumption decision. If you buy meat and buns in order to make hamburgers for purchase, then it is an investment decision.
2. A demand schedule is a listing of the amounts consumers will buy at different prices. Your prices must consider this schedule.
3. A supply schedule is a listing of the amounts suppliers will make available at various prices. Again, your prices are influenced by this schedule.
4. A competitive advantage is anything that causes people to buy from one competitor rather than another.
5. To sustain a competitive advantage, one must pay constant attention to details.
6. Demand shifters include changes in population, income, prices of and availability of substitutes, and changes in expectations.
7. Supply shifters include prices of resources, prices of substitutes, and advances in technology.
8. Keep costs low by picking the right recipes, and making the recipes right!

ANSWERS TO WORKBOOK QUESTIONS

1. Increase advertising, research the market, add new products or services, or test market new products or services.
2. Answers may vary.
3. Answers may vary.
4. The answers should include the following ideas:
    - a. Buy in volume.
    - b. Take advantage of all discounts.
    - c. Do not extend credit.
    - d. Schedule labor carefully.
    - e. Look for substitutes to reduce costs.
5. Elastic demand items are price sensitive; inelastic items are price independent.
6. Answers should include the following:
    - a. Changes in technology
    - b. Changes in the price of resources
    - c. Changes in the price of substitutes
7. Answers should include the following:
    - a. Changes in population
    - b. Changes in per capita income
8. Answers should include two of the following:
    - a. Yellow pages
    - b. People in that particular business
    - c. Local Chamber of Commerce
    - d. Trade newspapers and magazines
    - e. Financial institutions
    - f. Suppliers
    - g. Customers
    - h. Small Business Development Centers
    - i. Personal observations
9. Answers may vary.
10. Answers may vary.
11. Answers may vary.

ANSWERS TO WORKBOOK VOCABULARY

1. a
2. c
3. f
4. d
5. e
6. j
7. g
8. i
9. n
10. b
11. k
12. m
13. l
14. h

TM 7-1

Class Goals

Chapter 7 presents the information necessary for you to develop the following abilities:

1. To identify ways of competing
2. To identify competitors
3. To identify a competitive advantage

TM 7-2

Questions to Consider

1. What are two competitive advantages my business will have?
2. How will I compete as a low-cost producer?
3. What are supply shifters?
4. What are demand shifters?
5. What is inelastic demand?
6. What will impact demand in my business?

TM 7-3

Notes from the Case Study

1. Dick added value and was rewarded for that service.
2. Free samples can effectively introduce a new product.
3. Dick competed by providing a lower cost substitute.
4. Controlling your raw materials improves quality and profit potential.
5. Many young entrepreneurs get their start with a small project.
6. Low-tech items and procedures can be profitable ventures.
7. Dick benefited from a labor-intensive enterprise; he realized an additional reward for his otherwise under-used time.
8. Dick's initial investment was quite low as he used family resources.
9. Dick developed customer loyalty by constantly improving his product and service.
10. Dick's business was home-based.

TM 7-4

Demand

- Amount of products or services people will buy at a given price

Demand Schedule

- Combinations of quantities taken at various prices (usually cannot be completely known)

Elastic Demand

- Automobiles (one brand readily substitutes for another)
- Hamburger (higher price may cause people to switch to lower-priced hot dogs)

Inelastic Demand

- Insulin (If I am diabetic I must have it.)

TM 7-5

Demand Shifters

1. Population changes
2. Per capita income changes
3. Substitute changes
4. Price of substitute changes
5. Expectations change

TM 7-6

Supply

- Amounts of goods or services producers will supply at given prices

Supply Schedule

- Amounts of goods or services made available at different prices (usually is not completely known)

TM 7-7

I Will Be Able to Compete as a Low-Cost Producer Because:

1.

2.

3.

4.

5.

6.

7.

8.

TM 7-8

Supply Shifters Include:

1.

2.

3.

4.

5.

TM 7-9

Sources of Information about the Competition

1. Yellow Pages
2. People in the business
3. Local Chamber of Commerce
4. Trade newspapers and magazines
5. Financial institutions
6. Suppliers
7. Customers
8. Small Business Development Centers
9. Personal observations

TM 7-10

Some Factors that Influence Price Competition

1. Location
2. Resources control
3. Labor costs

TM 7-11

Major Areas of Competition

1. Service
2. Quality
3. Price

TM 7-12

Competitive Advantages of My Business

1.
2.
3.
4.
5.
6.
7.
8.
9.
10.
11.
12.

CHAPTER 8

Studying the Market Place

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To understand market research
- To identify a market niche
- To identify ways of doing market research
- To develop market research questions

RESOURCE PEOPLE

1. Marketing specialist
2. Members of SCORE

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

1. Inform the librarian in advance so the needed materials will be available.
2. Alert the appropriate officials. Check on the availability of SBDC help.

TRANSPARENCY MASTERS

TM 8-1. Ask students to suggest additional goals.

TM 8-2. Ask students to suggest additional questions.

TM 8-3. Ask students to make additional observations.

TM 8-4. Challenge the students to start thinking about their own ventures.

TM 8-5. Challenge the students to identify local businesses with recognizable market niches.

TM 8-6. Discuss how these items emphasize the importance of market research.

TM 8-7. Discuss these methods of research.

TM 8-8. A great deal of information is already available to anyone contemplating a business start-up, this is called secondary research. List some sources of secondary research information.

TM 8-9. Primary research is obtaining new information. List some sources of primary research information.

TM 8-10. Help students identify the types of customers they will serve by defining a customer profile.

TM 8-11. Discuss these recommended steps to conducting market research.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Market research is a collection of facts which aids your marketing decisions.
2. Secondary research is gathering information which is already available.
3. Primary research is gathering first-hand information.
4. Market research is conducted to improve the decision-making process.
5. Market research will help you recognize, establish priorities for, and seize profitable opportunities.
6. Sources of research information include the following:
   a. Phone books
   b. Trade and professional directories or publications
   c. Economic and business data available through universities
   d. Chambers of Commerce or other organizations
   e. Newspapers
   f. Annual reports
   g. Tax publications and similar documents
   h. Internal business records providing the following information about your customers:
      - Sales
      - Costs
      - Contact with people through observation
      - Written or verbal surveys
      - Focus groups
      - Direct face-to-face communication
7. Market research is applied by making informed decisions.

ANSWERS TO WORKBOOK QUESTIONS

1. Answers will vary.
2. Answers should include some of the following ideas:
   a. I should study the demographics for my area.
   b. If I am a minority business owner, I should determine if my products or services will be in demand by customers in my area.
3. Market research is necessary to business survival. It provides information to improve decision making and to identify unsatisfied or under-satisfied customer needs.
4. Test marketing and market research

5. **Primary sources such as observation, and secondary sources already available (e.g., yellow pages)**
6. Answers can include the following:
    a. Phone books
    b. Trade and professional directories or publications
    c. Economic and business data available through universities
    d. Chambers of Commerce or other organizations
    e. Newspapers
    f. Annual reports
    g. Tax publications and similar documents
    h. Internal business records concerning your customer sales and costs
7. Use of focus groups, direct solicitation, and personal observation
8. Answers will vary.
9. Answers should include the following steps:
    a. Start where you are.
    b. Review known facts.
    c. Identify additional needed information.
    d. Collect all the information you can.
    e. Make informed decisions.
10. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. i or l
2. e
3. k
4. d
5. h
6. g
7. b
8. a
9. c
10. j
12. f
13. m

11. *error in workbook* – Correct definition is "assumptions based on other data or observations."

TM 8-1

Class Goals

Chapter 8 presents the information necessary for you to develop the following abilities:

1. To understand market research
2. To identify a market niche
3. To identify ways of doing market research
4. To develop market research questions

TM 8-2

Questions to Consider

1. What is the purpose of market research?
2. What is a market niche?
3. How does primary research differ from secondary research?
4. How does a business test-market a product?
5. What are different types of market research?
6. What are the steps to market research?

TM 8-3

Notes from the Case Studies

1. Joe and Nancy failed to do their market research.
2. Market research is an essential planning activity.
3. Market research is a vital part of a business plan.
4. Enthusiasm is not enough to create a profitable business.
5. Identifying a market niche is good market research.
6. A part-time activity can grow into a business.
7. A competitive advantage is more likely with a market niche.
8. Too often beginning entrepreneurs consider finances the most important preparation.
9. Market research must precede informed decision making.

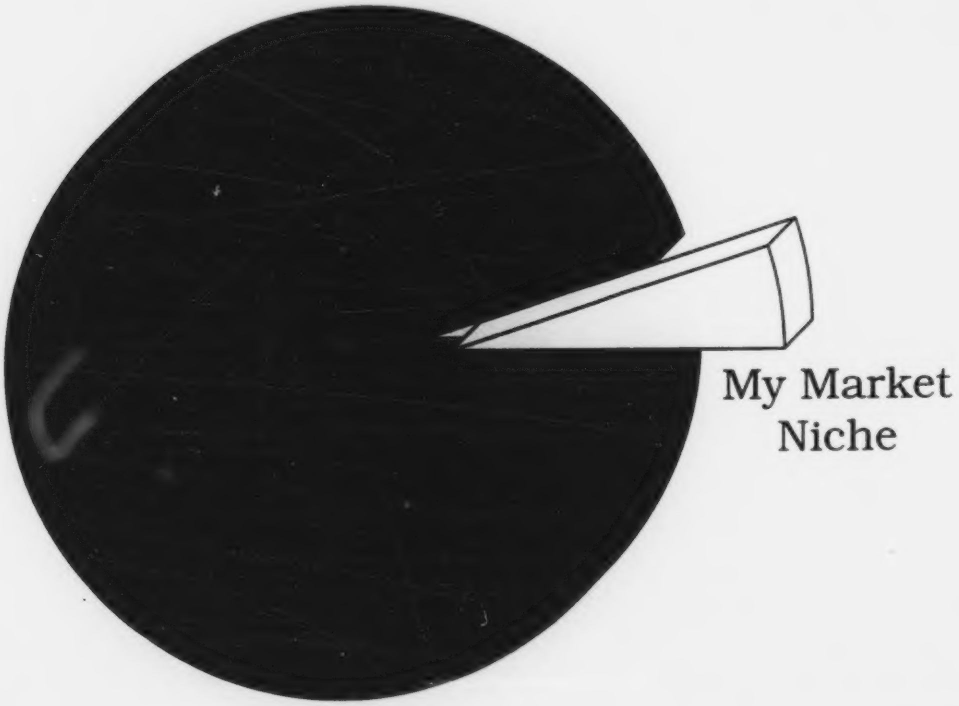
TM 8-4

Test-Marketing Ideas to Try

1.
2.
3.
4.
5.
6.
7.
8.

TM 8-5

My Market Niche



Purposes of Market Research

1. Market research will help you recognize, establish priorities for, and seize profitable opportunities.
2. Research helps you identify problems, develop solutions to those problems, and verify information on which to base decisions.
3. Research increases your ability to draw realistic conclusions and make decisions with knowledge of risks and consequences; and it helps you evaluate priorities and alternative solutions.
4. Perhaps the most important purpose – research creates and helps you maintain a channel of communication between you and your marketplace.

TM 8-7

Types of Market Research Projects

1. Research on competitors
2. Business and economic climate
3. Sales and market penetration
4. Product development
5. Communications effectiveness studies
6. Price and cost analysis
7. Distribution methods
8. Location viability
9. Customer preference studies

TM 8-8

Secondary Research Information Sources

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

11.

12.

TM 8-9

Primary Research Information Sources

1.

2.

3.

4.

5.

TM 8-10

My Customer's Profile

1.

2.

3.

4.

5.

6.

7.

8.

TM 8-11

Five Steps to Market Research

1. Start where you are with what you already know.
2. Review the known facts.
3. Identify what additional information is necessary to make an informed decision.
4. Collect as much information as you can before making business decisions.
5. Remember – uninformed decisions may cost you money or even your business!

CHAPTER 9

Pursuing Positive Publicity

INSTRUCTIONAL GOAL

This chapter provides aids for instilling the following abilities in your students:

- To identify ways to publicize his or her business

RESOURCE PERSON

- Newspaper city editor

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Begin collecting newspapers for several weeks before this assignment is given. Contact your local news reporter or city editor for more information on these types of stories.

TRANSPARENCY MASTERS

TM 9-1. Discuss the class goal.

TM 9-2. Ask the students to add questions.

TM 9-3. Ask the students for additional observations.

TM 9-4. Discuss the benefits of these public relation tactics.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Answers can include the following:
    a. Made a list of the people he wanted to invite to the private showing.
    b. Asked each invited person to bring a friend.
    c. Set up a drawing for door prizes.
    d. Informed the news media about the private showing.
    e. Put up posters and a library display.
    f. Invited other craftspeople and artists.

2. People assume a third party has no vested interest in the business – therefore, he or she is more objective.
3. Probably not – quality products, friendly service, and adequate advertising are also very important.
4. Publicity, customer service, community involvement, advertising, and networking

ANSWERS TO WORKBOOK QUESTIONS

1. Answers will vary.
2. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. c
2. a
3. d
4. f
5. b
6. e

TM 9-1

Class Goal

Chapter 9 presents the information necessary for you to develop the following abilities:

- To identify ways to publicize your business

TM 9-2

Questions to Consider

1. What are some ways to obtain free publicity for my business?
2. What type of publicity will be most helpful?
3. Who are the media contact persons in my community?

TM 9-3

Notes from the Case Study

1. Publicity is money-free promotion.
2. Time and effort can be substituted for paid advertising.
3. Adding educational features got a display in the library.
4. Steven networked with other craftspeople.
5. Open house events attract attention.
6. Business news columns often cover start-up businesses.
7. Feature stories can be free publicity for a new business.
8. Imagination can create favorable attention.
9. Door prizes attract store traffic.

TM 9-4

Positive Public Relations

1. Know your customers' names.
2. Provide excellent customer service.
3. Participate in community activities.
4. Network.

CHAPTER 10

Advertising and Promotion

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To be aware of cultural differences when planning advertising
- To understand the concept of advertising
- To understand the concept of promotion

RESOURCE PEOPLE

1. Media advertising personnel
2. Members of SCORE

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Contact your local SBDC or SCORE chapter for help.

TRANSPARENCY MASTERS

TM 10-1. Ask the students to suggest additional class goals.

TM 10-2. Ask the students to suggest additional questions.

TM 10-3. Ask the students for additional observations.

TM 10-4. Discuss the idea that development of an advertising plan is an important management skill. These are some of the things to consider during this development process.

TM 10-5. Ask the students to suggest some advertising media categories. Suggestions should include print, radio, and television.

TM 10-6. Discuss the importance of message content – it should fit your intended audience.

TM 10-7. Discuss the importance of selecting the appropriate media – it will enhance campaign effectiveness.

TM 10-8. Discuss how budgeting for advertising is an important part of your cash flow budgeting.

TM 10-9. Questions to ask as you do the cash flow budgeting for advertising.

TM 10-10. Ask the students to suggest promotional activities. Answers should include advertising specialties, sales, drawings, contests, and limited time offers.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Satisfied customers who tell others – word of mouth
2. Coupons let you know if a newspaper ad or a flyer is working. Special references in radio or TV ads can indicate to whom these ads appeal.
3. Advertising should appeal to the customer you are trying to reach.
4. Did your advertising message result in your sales goals?
5. Yes – market research helps focus the promotion.
6. Print, radio, and television
7. Two to five percent of sales is a recommended starting point.
8. They carry a message from your business to the public.

ANSWERS TO WORKBOOK QUESTIONS

1. Study demographics and research the ethnic groups reached by each media category.
2. Answers will vary.
3. Answers will vary.
4.

ADVANTAGES	DISADVANTAGES
Focus is on a geographic area.	Expensive, and may not target my customers
Focus is on specific audiences.	Expensive, limited area – e.g., age or ethnic group
Very focused, very good for some businesses	Expensive, limited area – e.g., age or ethnic group
Rather inexpensive	Expensive, deadline for enrolling
Focus is on specific markets.	Labor intensive
	Not suitable for some products or services.

5. Answers will vary.
6. Answers will vary.
7. Answers will vary.
8. Answers will vary.
9. Answers will vary.
10. Answers will vary.
11. Answers will vary.
12. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. e
2. a
3. d
4. f
5. b
6. i
7. h
8. c
9. g

Class Goals

Chapter 10 presents the information necessary for you to develop the following abilities:

1. To be aware of cultural differences when planning advertising
2. To understand the concept of advertising
3. To understand the concept of promotion

TM 10-2

Questions to Consider

1. What are three types of media used for advertising?
2. What criteria can be used to measure effective advertising?
3. What are the advantages of direct mail advertising?
4. What percentage of gross sales should be budgeted for advertising?
5. How should I develop my advertising plan?

TM 10-3

Notes from the Case Study

1. Tom gained customers by word-of-mouth advertising.
2. Tom used the "yellow pages."
3. Tom needs additional customers.
4. Tom needs an advertising plan
5. Tom needs a method to evaluate his advertising costs and returns.
6. Advertising and promotion may increase cash flow.
7. Advertising is an expense that should be included in cash flow budgeting.
8. Advertising is a unique service.

TM 10-4

Developing Your Advertising Plan

1. Your objectives
2. Your market research information
3. Your cash flow budget
4. Media which influences your customers
5. Message you want to deliver

TM 10-5

What Are Some Advertising Media Categories?

1.

2.

3.

TM 10-6

Your Message Content Questions

1. What are the characteristics of your target customers?
2. How old are your target customers?
3. What is the socioeconomic level of your target customers?
4. What interests are shared by your target customers?
5. What is the educational level of your target customers?

TM 10-7

Selecting Appropriate Media

1. What is the objective for your advertisement (in specific terms)?
2. Are you hoping your ads will result in the sale of 10 additional units in a 60-day period?
3. Do you wish to increase the number of customers who visit your shop by 50 and sell to 5 of them during a weekend sale?
4. Do you want to obtain at least 1 referral from each of your existing customers during the next 6 months?

TM 10-8

Budgeting for Advertising

1. Commit 2 to 5 percent of gross sales to your advertising budget.
2. Make your advertising budget part of your cash flow forecasts.
3. Consider your growth goals.
4. Consider how advertising will help you reach these goals.

Ask these Questions as You Decide

1. Which products or services should you promote?
2. Are sales tickets, invoices, and letterhead part of your budget?
3. What are the costs of the different media?

TM 10-10

What Are Some Promotional Activities?

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

CHAPTER 11

Using Trade Shows and Fairs

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify ways a trade show or fair can promote a business
- To identify the principles of exhibits

RESOURCE PEOPLE

1. Chamber of Commerce secretary
2. SBDC personnel

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Contact the local Chamber of Commerce office to find out when and where trade shows are held. You may want to make a checklist or observation guide that correlates to the fair or trade show the students want to visit.

TRANSPARENCY MASTERS

TM 11-1. Discuss the class goals with the students.

TM 11-2. Ask the students to contribute additional questions.

TM 11-3. Add any student observations.

TM 11-4. Discuss how to locate information about upcoming fairs and trade shows related to particular businesses.

TM 11-5. Discuss these questions which are important to ask before committing time and money to a trade show.

TM 11-6. Discuss with students how to draw attention to an exhibit.

TM 11-7. Emphasize that your money and time are wasted unless you follow up with identified prospects.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Trade magazines and advertisements
2. You get first-hand observation of who attends and how exhibitors display their products.
3. Answers should include the following:
   a. Is the event within your desired trade area?
   b. What was the attendance at this show last year?
   c. What is the anticipated attendance this year?
   d. What are the featured products; how does yours relate?
   e. What are the fees for exhibitors?
   f. How does the timing of this trade show coordinate with your other activities?
4. Each question seeks important decision-making information.
5. An overall pattern, idea, or topic – themes should be simple and unified.
6. It's supposed to sell a particular idea.
7. Motion catches the attention.
8. Color should be harmonious with the theme.
9. Balance refers to the symmetry of the exhibit.
10. Registration for door prizes are a common method.
11. Unless leads are followed up, time and money spent on an exhibit are wasted.

ANSWERS TO WORKBOOK QUESTIONS

Answers to questions 1 through 6 will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. c
2. b
3. a
4. d

TM 11-1

Class Goals

Chapter 11 presents the information necessary for you to develop the following abilities:

1. To identify ways a trade show or fair can promote a business
2. To identify the principles of exhibits

TM 11-2

Questions to Consider

1. Where can you obtain reliable data regarding trade shows?
2. How should a trade show exhibit be developed?
3. What is the "center of interest" and why is it so important?
4. How can cost benefit be measured?

TM 11-3

Notes from the Case Studies

1. Trade shows and fairs must be selected with care.
2. You have limited time to attract attention.
3. Motion attracts attention.
4. You need to define and target your desired audience.
5. You must compete for attention.
6. Details must be limited.
7. Visibility is crucial.
8. Signs must be readable.

TM 11-4

How to Locate Trade Shows and Fairs

1. Trade magazines
2. SBDC personnel
3. SCORE members
4. Reference librarians
5. Chamber of Commerce secretary
6. Other businesspeople

TM 11-5

How to Choose a Fair or Trade Show

Answer these questions first –

1. Is the event within your desired trade area?
2. What was the attendance last year?
3. What is the anticipated attendance this year?
4. What are the featured products and how does yours relate?
5. What are the fees for exhibitors?
6. How does the time of the show fit with other activities?

TM 11-6

Creating Eye-Catching Exhibits

1. Choose an appropriate theme.
2. Use motion.
3. Use color.
4. Keep things simple.
5. Create a center of interest.
6. Use formal or informal balance.
7. Consider viewing distance and lettering sizes.
8. Avoid a cluttered appearance.

Have a Follow-Up Plan

To identify prospective customers –

1. Register prospective customers for a door prize.
2. Use mail-in information request cards.
3. Distribute brochures.

To follow up prospective customers –

1. Do your homework and determine how your product will aid the prospective customer.
2. Show the prospective customers how your product will benefit them.
3. Send more information on items in which they show an interest.
4. Make personal contacts.

PART IV

Financial Management

CHAPTER 12

Setting Prices

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To learn pricing theory
- To identify direct and indirect costs
- To assign the costs of doing business
- To set prices

RESOURCE PEOPLE

- SCORE members

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

DOLLAR AMOUNTS

Item	Indirect (or allocated)	Direct
Food		$ 64,729.90
Paper products	$ 2,569.89	
Taxes	4,245.88	
Wages	13,195.28	
Rent	4,405.00	
Cleaning	210.54	
Trash	245.91	
Telephone	252.00	
Gas	232.62	
Electricity	1,623.21	
Advertising	1,834.39	
Interest	299.10	
Depreciation	900.00	
TOTALS	$ 19,932.37	$ 9,686.22

TRANSPARENCY MASTERS

TM 12-1. Invite additions to the class goals.

TM 12-2. Invite additional questions from the students.

TM 12-3. Discuss Pat's costs - which are direct and which are indirect?

TM 12-4. Invite additional observations from the students.

TM 12-5. Discuss supply and demand and how they govern prices.

TM 12-6. Discuss these possible competitive advantages.

TM 12-7. Discuss this generic definition of cost.

TM 12-8. Direct costs are those completely dependent on a product or service.

TM 12-9. Indirect costs are those that happen whether or not any business is done.

TM 12-10. Have the students list direct and indirect costs for their business ventures.

TM 12-11. Explain and discuss the formula for profit.

TM 12-12. Discuss these three formulas for setting profit goals.

TM 12-13. Discuss these steps involved in price setting.

TM 12-14. Discuss these options to take when your set price is not competitive.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Prices are governed by how much people are willing to pay and for how much businesses are willing to sell.
2. Direct costs are traceable to a product or service and will not occur if the product is not made or the service is not rendered.
3. Indirect costs continue regardless of production or services rendered. Sometimes they are called overhead costs.
4. Indirect costs are allocated by determining the amount of direct cost in each product or service and allocating the appropriate percentage of costs to that product or service.
5. The lump sum method merely divides the total profit desired by the sales goal and assigns that portion of the profit goal to each unit sold.
6. The competition's price is reviewed only after your price is calculated.

ANSWERS TO WORKBOOK QUESTIONS

1. The competition
2. Any competitive advantage
3. No two small businesses operate the same way.
4. Answers should include any 5 of the following:
   a. Product quality
   b. Product performance
   c. Product uniqueness
   d. Product efficiency
   e. Quality of service
   f. Timeliness of delivery
   g. Courtesy to customers
   h. Time utility
   i. Place utility

5. **The competition**
6. It's an easy way to set prices.
7. Any of the answers to number 4 are acceptable.
8. Full costs
9. a. Use of resources is required.
   b. Cost measurement is in dollars.
   c. Cost measurement is related to a specific purpose.
10. a. Direct
    b. Indirect
11. a. Flour
    b. Other ingredients
12. Answers will vary.
13. The wrong force sets the price – the competition.
14. Overhead
15. Allocated costs are difficult to trace to products or service rendered. Direct costs can be traced to products or services rendered.
16. Answers should include any 4 of the following:
    a. Wages
    b. Rent
    c. Cleaning
    d. Trash
    e. Gas
    f. Electricity
    g. Telephone
    h. Advertising
17. Answers will vary.
18. **Note:** You will need to supply the students with the inventory figure at the start and end of the period in order for them to correctly complete the Schedule C, Form 1040. These figures are $1,432 and $1,325.

Line 1	$64,730
Line 2 & 3 blank	

Part III

Line 33	$1,432
Line 34	16,570
Line 35, 36, & 37 blank	
Line 38	18,002
Line 39	1,325
Line 40	16,677
Return to Part I, line 4	16,677
Line 5	48,953
Line 6 blank	
Line 7	48,953

Part II

Line 8	1,834
Line 13	900
Line 16b	299

Part II *(continued)*

Line 20	4,405
Line 22	2,570
Line 23	4,246
Line 25	2,108
Line 26	13,195

Part V.

Line 46 - cleaning and trash expenses	456
Line 27	456
Line 28	$ 30,013
Line 29	18,940
Line 30	blank
Line 31	$ 18,940
Line 32a checked	

19. Equipment is depreciated over the time of life expectancy.

20. Cost of sales, expenses

21. Profit = Revenues – Costs

22. a. Lump sum method – owner determines how much profit the business is to yield.
    b. Sales volume method – as sales volume increases, profits increase.
    c. Return on investment method – owner has investment at risk and must determine his/her rate of return.

23. Answers will vary.

24. Answers will vary.

25. Answer will be a percentage.

26. Answer will be a percentage.

27. Answers will vary.

28. a. Get out of the product line.
    b. Lower direct costs.
    c. Lower operating costs.

29. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. d
2. a
3. h
4. g
5. i
6. j
7. b
8. c
9. k
10. f
11. e

Class Goals

Chapter 12 presents the information necessary for you to develop the following abilities:

1. To learn pricing theory
2. To identify direct and indirect costs
3. To assign the costs of doing business
4. To set prices

TM 12-2

Questions to Consider

1. What ultimately determines prices for goods and services?
2. What is the fallacy in using competitor's pricing when setting my price?
3. What are full costs?
4. What are indirect (allocated) costs?
5. What are direct costs?
6. What are the five steps in pricing?
7. How is markup calculated?
8. What are overhead costs?
9. What are my options if my price is not competitive?

TM 12-3

A Look at Pat's Costs

1. Cake mix or ingredients
2. Frosting materials
3. Coloring materials
4. Flavorings
5. Accessories such as figures, layer supports, and similar items
6. Packaging materials
7. Equipment costs – e.g., cake decorating tools, oven, mixer, spatulas, pans, and other items used
8. Proportional share of utilities and kitchen use costs
9. Labor costs
10. Management return
11. Profit

TM 12-4

Notes from the Case Studies

1. Pricing is a very difficult task for entrepreneurs.
2. Many more items enter into setting prices than ingredients alone.
3. Not all costs can be traced to a specific job.
4. Indirect costs must be determined before an accurate price can be set for a product or service.
5. Price competition may lead to losses.

Prices Are Ultimately Governed by:

1. How much the customer is willing to pay
2. How much the seller is willing to accept

TM 12-6

Some Possible Competitive Advantages

1. Product quality
2. Product performance
3. Product uniqueness
4. Quality of service
5. Timeliness of delivery
6. Courtesy to customers
7. Production efficiency
8. Time utility
9. Place utility

TM 12-7

Generic Definition of "Cost"

"the dollar measurement of the amount of resources used for a specific purpose"

THREE IDEAS –

1. The use of resources is required.
2. Cost measurement is expressed in dollar terms.
3. Cost measurement is related to a specific purpose.

TM 12-8

Direct Costs

Those costs are directly
due to a product or service.

(If no product or service is
produced, there is no cost.)

184

TM 12-9

Indirect Costs (or Allocated)

Costs due to two or more products or services.

(These costs occur even if
no products or services are offered.)

TM 12-10

What Are the Direct and Indirect Costs for My Business?

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

TM 12-11

Profit Formula

Profit = Revenues – Expenses
(Direct and Indirect Costs)

TM 12-12

Formulas for Profit Goals

1. *Lump sum method:*

   Profit = Revenues – Expenses

2. *Sales volume method:*

   Profit = Revenues – Sales Volume x %

3. *Return on investment method:*

   Profit = Return on Investment x Net Worth

Pricing Procedure

1. Determine products or services to be sold.
2. Determine direct costs.
3. Determine indirect costs.
4. Allocate profit proportion.
5. Combine the costs and profit.

TM 12-14

Non-Competitive Options

1. Get out of that product line.
2. Lower direct costs.
3. Lower operating costs.

CHAPTER 13

Keeping Score

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To learn basic record-keeping concepts
- To identify the single-entry accounting system
- To identify the double-entry accounting system
- To identify the period report

RESOURCE PEOPLE

1. Certified public accountant
2. SBDC personnel

TIPS AND ANSWERS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Prepare an example individual net worth statement in advance. Following are the answers to activities 1 and 2:

CORNER BAKERY INCOME STATEMENT

January 1, 1991 to March 31, 1991

Description	**Totals**
NET SALES	$ 30,148.28
COST OF GOODS SOLD	$ 7,289.96
GROSS MARGIN	$ 22,858.32
OPERATING EXPENSES	
Wages	$ 5,900.00
Rent	2,265.00
Cleaning	62.40
Trash	121.20
Telephone	212.72
Gas	121.59
Electricity	892.74
Advertising	540.80
Interest	158.53
Taxes	1,791.36
Depreciation	200.00
TOTAL OPERATING EXPENSES	$ 13,577.09

CORNER BAKERY TRIAL BALANCE

Account	Debit	Credit
Checking	$ 11,513.57	
Inventory	526.15	
Equipment	8,200.00	
Utility Deposits	1,300.00	
Loans		$ 6,424.99
Accounts Payable		2,808.00
Payroll Taxes Payable		0.00
Retained Earnings		2,014.64
Sales		30,148.28
Cost of Sales - Food	7,289.96	
Advertising	540.80	
Depreciation	200.00	
Interest Expense	158.63	
Rent	2,265.00	
Services	183.60	
Supplies	299.79	
Taxes	1,791.36	
Utility Expense	1,227.05	
Wages	5,900.00	
TOTALS	**$ 41,395.91**	**$ 41,395.91**

CORNER BAKERY BALANCE SHEET – 3/31/91

Assets

Cash	$ 11,513.57
Inventory	526.15
Total Current Assets	12,039.72
Equipment (less depreciation)	8,200.00
Deposits	1,300.00
TOTAL ASSETS	**$ 21,539.72**

Liabilities and Equity

Accounts payable	$ 2,808.00
Loans	6,424.99
Total Current Liabilities	9,232.99
Owner's Equity	12,306.73
TOTAL LIABILITIES AND EQUITY	**$ 21,539.72**

CORNER BAKERY GENERAL JOURNAL

Date	Transaction Description	Account	Debit	Credit
01/31/91	January Sales (including sales tax)	Checking	$ 8,035.71	
		Sales		$ 8,035.71
01/31/91	January Wages	Wages		1,900.00
		Payroll Taxes Payable		464.70
		Checking	1,435.30	
01/31/91	January FICA & Payroll Taxes Paid	Payroll Taxes Payable	464.70	
		Taxes	109.50	
		Checking		574.20
01/31/91	January Sales Tax Payment	Taxes	382.65	
		Checking		382.65
01/31/91	January Rent	Rent	755.00	
		Checking		755.00
01/31/91	Food Purchases for January	Cost of Goods Sold - Food	1,843.20	
		Accounts Payable		1,843.20
01/31/91	Payment of Accounts Payable	Accounts Payable		2,584.99
		Checking		2,584.99
01/31/91	Paper Products Purchases	Supplies	80.78	
		Checking		80.78
01/31/91	Cleaning	Services	8.30	
		Checking		8.30
01/31/91	Trash Hauling	Services	40.40	
		Checking		40.40
01/31/91	Telephone	Utility Expense	42.00	
		Checking		42.00
01/31/91	Gas Heating	Utility Expense	38.00	
		Checking		38.00
01/31/91	Electricity	Utility Expense	277.20	
		Checking		277.20
01/31/91	Advertising	Advertising	170.30	
		Checking		170.30
01/31/91	Payment on Purchase Contract (Note)	Loans	125.00	
		Interest Expense	14.82	
		Checking		139.82
01/31/91	Bank Loan Payment	Loans	116.67	
		Interest Expense	39.37	
		Checking		156.04
02/28/91	February Sales	Checking	10,738.68	
		Sales		10,738.68
02/28/91	February Wages	Wages	2,000.00	
		Payroll Taxes Payable		469.30
		Checking		1,530.70
02/28/91	FICA & Payroll Taxes Paid	Payroll Taxes Payable	469.30	
		Taxes	117.06	
		Checking		586.36
02/28/91	Rent	Rent	755.00	
		Checking		755.00
02/28/91	Food Purchases	Cost of Goods Sold - Food	2,138.40	
		Accounts Payable		2,138.40
02/28/91	Paper Products	Supplies	95.20	
		Checking		95.20

CORNER BAKERY GENERAL JOURNAL

(continued)

Date	Transaction Description	Account	Debit	Credit
02/28/91	Cleaning	Services	$ 30.80	
		Checking		$ 30.80
02/28/91	Trash Hauling	Services	40.40	
		Checking		40.40
02/28/91	Telephone	Utility Expense	42.00	
		Checking		42.00
02/28/91	Gas Heating	Utility Expense	43.00	
		Checking		43.00
02/28/91	Electricity	Utility Expense	298.30	
		Checking		298.30
02/28/91	Advertising	Advertising	245.50	
		Checking		245.50
02/28/91	Payment on Purchase	Loans	125.00	
	Contract (Note)	Interest Expense	14.82	
		Checking		139.82
02/28/91	Bank Loan Payment	Loans	116.67	
		Interest Expense	38.06	
		Checking		154.73
02/28/91	February Sales Tax	Taxes	511.36	
	Payment	Checking		511.36
02/28/91	Payment of Accounts	Accounts Payable	1,843.20	
	Payable	Checking		1,843.20
03/31/91	March Sales	Checking	11,373.89	
		Sales		11,373.89
03/31/91	March Wages	Wages	2,000.00	
		Payroll Taxes Payable		376.75
		Checking		1,623.25
03/31/91	FICA & Payroll Taxes Paid	Payroll Taxes Payable	376.75	
		Taxes	129.18	
		Checking		505.93
03/31/91	Rent	Rent	755.00	
		Checking		755.00
03/31/91	Food Purchases	Cost of Goods Sold - Food	2,808.00	
		Accounts Payable		2,808.00
03/31/91	Payment of Accounts	Accounts Payable	2,138.40	
	Payable	Checking		2,138.40
03/31/91	Paper Products	Supplies	123.81	
		Checking		123.81
03/31/91	Cleaning	Services	23.30	
		Checking	23.30	
03/31/91	Trash Hauling	Services	40.40	
		Checking		40.40
03/31/91	Telephone	Utility Expense	128.72	
		Checking		128.72
03/31/91	Gas Heating	Utility Expense	40.59	
		Checking		40.59
03/31/91	Electricity	Utility Expense	317.24	
		Checking		317.24
03/31/91	Advertising	Advertising	125.00	
		Checking		125.00
03/31/91	Payment on Purchase	Loans	125.00	
	Contract (Note)	Interest Expense	14.82	
		Checking		139.82

CORNER BAKERY GENERAL JOURNAL

(continued)

Date	Transaction Description	Account	Debit	Credit
03/31/91	Bank Loan Payment	Loans	$ 116.67	
		Interest Expense	36.74	
		Checking		$ 153.41
03/31/91	March Sales Tax Payment	Taxes	541.61	
		Checking		541.61
03/31/91	First Quarter Depreciation	Depreciation	200.00	
		Equipment		200.00
03/31/91	First Quarter Inventory Adjustment	Cost of Goods Sold - Food	500.36	
		Inventory		500.36
	TOTALS		$ 58,606.82	$ 58,606.82

Sales Account

Date	Item	Debit	Credit	Balance
01/31/91	January Sales		$ 8,035.71	$ 8,035.71
02/28/91	February Sales		10,738.68	18,773.39
03/31/91	March Sales		11,373.89	30,148.28

Advertising Account

Date	Item	Debit	Credit	Balance
01/31/91	Advertising	$ 170.30		$ 170.30
02/28/91	Advertising	245.50		415.80
03/31/91	Advertising	125.00		540.80

Checking Account

Date	Item	Debit	Credit	Balance
01/01/91	Opening Balance			$ 1,023.12
01/31/91	January Sales	$ 8,035.71		9,058.83
01/31/91	Wages		$ 1,435.30	7,623.53
01/31/91	Taxes		574.20	7,049.33
01/31/91	Sales Tax		382.65	6,666.68
01/31/91	Rent		755.00	5,911.68
01/31/91	Accounts Payable		2,584.99	3,366.69
01/31/91	Paper Products		80.78	3,285.91
01/31/91	Cleaning		8.30	3,277.61
01/31/91	Trash Hauling		40.40	3,237.21
01/31/91	Telephone		42.00	3,195.21
01/31/91	Gas		38.00	3,157.21
01/31/91	Electricity		277.20	2,880.01
01/31/91	Advertising		170.30	2,709.71
01/31/91	Contract Payment		139.82	2,569.89
01/31/91	Bank Loan Payment		156.04	2,413.85
02/28/91	February Sales	10,736.68		13,150.53
02/28/91	Wages		1,530.70	11,619.83

Checking Account

(continued)

Date	Item	Debit	Credit	Balance
02/28/91	Taxes		$ 586.36	$ 11,033.47
02/28/91	Rent		755.00	10,278.47
02/28/91	Paper Products		95.20	10,183.27
02/28/91	Cleaning		30.80	10,152.47
02/28/91	Trash Hauling		40.40	10,112.07
02/28/91	Telephone		42.00	10,070.07
02/28/91	Gas		43.00	10,027.07
02/28/91	Electricity		298.30	9,728.77
02/28/91	Advertising		245.50	9,183.27
02/28/91	Contract Payment		139.82	9,043.45
02/28/91	Bank Loan Payment		154.73	8,888.72
02/28/91	Sales Tax		511.36	8,377.36
02/28/91	Accounts Payable		1,843.20	6,534.16
03/31/91	March Sales	$ 11,373.89		17,908.05
03/31/91	Wages		1,623.25	16,284.80
03/31/91	Payroll Taxes		505.93	15,778.87
03/31/91	Rent		755.00	15,023.87
03/31/91	Accounts Payable		2,138.40	12,885.47
03/31/91	Paper Products		123.81	12,761.66
03/31/91	Cleaning		23.30	12,738.36
03/31/91	Trash Hauling		40.40	12,697.96
03/31/91	Telephone		128.72	12,569.24
03/31/91	Gas		40.59	12,528.65
03/31/91	Electricity		317.24	12,211.41
03/31/91	Advertising		125.00	12,086.41
03/31/91	Contract Payment		139.82	11,946.59
03/31/91	Bank Loan Payment		153.41	11,793.18
03/31/91	Sales Taxes		541.61	11,251.57

Wages Account

Date	Item	Debit	Credit	Balance
01/31/91	Wages	$ 1,900.00		$ 1,900.00
02/28/91	Wages	2,000.00		3,900.00
03/31/91	Wages	2,000.00		5,900.00

Taxes

Date	Item	Debit	Credit	Balance
01/31/91	Payroll Taxes Payable		$ 464.70	($ 464.70)
01/31/91	Fica & Payroll Taxes	$ 464.70		0.00
		109.50		109.50
01/31/91	Sales Taxes	382.65		492.15
02/28/91	Payroll Taxes Payable		469.30	22.85
02/28/91	FICA and Payroll Taxes	469.30		492.15
		117.06		619.21
2/28/91	Sales Taxes	511.36		1,130.57
03/31/91	Payroll Taxes Payable		376.75	753.82
03/31/91	FICA and Payroll Taxes	376.75		1,130.57
		129.16		1,259.73
03/31/91	Sales Taxes	541.61		1,801.34

Rent Account

Date	Item	Debit	Credit	Balance
01/31/91	Rent	$ 755.00		$ 755.00
02/28/91	Rent	755.00		1,510.00
03/31/91	Rent	755.00		2,215.00

Cost of Goods Sold - Food

Date	Item	Debit	Credit	Balance
01/31/91	Food Purchases	$ 1,843.20		$ 1,843.20
02/28/91	Food Purchases	2,138.40		3,981.60
03/31/91	Food Purchases	2,808.00		6,789.60
03/31/91	Inventory Adjustment	500.36		7,289.96

Accounts Payable

Date	Item	Debit	Credit	Balance
01/31/91	Food Purchases		$ 1,843.20	$ 1,843.20
01/31/91	Payment of Accounts Payable	$ 2,584.99		(741.79)
02/28/91	Food Purchases		2,138.40	1,397.39
02/28/91	Payment of Accounts Payable	1,843.20		(445.81)

Supplies

Date	Item	Debit	Credit	Balance
01/31/91	Paper Products	$ 80.78		$ 80.78
02/28/91	Paper Products	95.20		175.98
03/31/91	Paper Products	123.81		299.71

Services

Date	Item	Debit	Credit	Balance
01/31/91	Cleaning	$ 8.30		$ 8.30
01/31/91	Trash Hauling	40.40		48.70
02/28/91	Cleaning	30.80		79.50
02/28/91	Trash Hauling	40.40		119.40
03/31/91	Cleaning	23.30		142.70
03/31/91	Trash Hauling	40.40		181.10

Utility Expense

Date	Item	Debit	Credit	Balance
01/31/91	Telephone	$ 42.00		$ 42.00
01/31/91	Gas Heating	38.00		80.00
01/31/91	Electricity	277.20		357.20
02/28/91	Telephone	42.00		399.20
02/28/91	Gas Heating	43.00		442.20
0/28/91	Electricity	298.30		740.50
03/31/91	Telephone	128.72		969.22
03/31/91	Gas Heating	40.59		1,009.81
03/31/91	Electricity	317.24		1,327.05

Loans Account

Date	Item	Debit	Credit	Balance
01/01/91	Opening Balance			$ 7,150.00
01/31/91	Contract Payment	$ 125.00		7,025.00
01/31/91	Bank Loan Payment	116.67		6,908.33
02/28/91	Contract Loan Payment	125.00		6,783.33
02/28/91	Bank Loan Payment	116.67		6,666.66
03/31/91	Contract Loan Payment	125.00		6,541.66
03/31/91	Bank Loan Payment	116.67		6,424.99

Interest Expense Account

Date	Item	Debit	Credit	Balance
01/31/91	Contract Interest	$ 14.82		$ 14.82
01/31/91	Bank Interest	39.37		54.19
02/28/91	Contract Interest	14.82		69.01
02/28/91	Bank Interest	38.06		107.07
03/31/91	Contract Interest	14.82		121.89
03/31/91	Bank Interest	36.74		158.63

Depreciation Account

Date	Item	Debit	Credit	Balance
03/31/91	First Quarter Depreciation	$ 200.00		$ 200.00

Equipment Account

Date	Item	Debit	Credit	Balance
01/01/91	Opening Balance			$ 8,400.00
03/31/91	First Quarter Depreciation	$ 200.00		8,200.00

Inventory Account

Date	Item	Debit	Credit	Balance
01/01/91	Opening Inventory	$ 1,026.51		$ 1,026.51
03/31/91	Closing Inventory	526.15		1,552.66
03/31/91	Inventory Adjustment		$ 500.36	1,052.30

TRANSPARENCY MASTERS

TM 13-1. Invite students to suggest additional class goals.

TM 13-2. Invite students to suggest additional questions.

TM 13-3. Have students provide examples until they fully understand this concept.

TM 13-4. Discuss the difference between a transaction and an event. A transaction is an exchange between entities; an event is a change within the business.

TM 13-5. Explain that the journal records the financial history of a business.

TM 13-6. Discuss how each account used in the business is recorded in the ledger.

TM 13-7. Use this TM to demonstrate the concept of posting – the recording of journal entries in the appropriate accounts in the ledger.

TM 13-8. This is a typical Promissory note.

TM 13-9. Invite the students to make additional observations.

TM 13-10. Discuss why good records are very important to the business.

TM 13-11. Discuss why this typical sales ticket is a source document.

TM 13-12. Explain these necessary features of the single-entry system.

TM 13-13. Double entry gets its name from the debit and credit entries for each transaction or event. You may want to show the earlier transparencies which define the terms.

TM 13-14. Review the basic accounting equation.

TM 13-15. When you show this TM, first cover the account numbers. Talk about the different types of accounts the bakery used. Then uncover the numbers to introduce the concept of numbered accounts.

TM 13-16. Discuss the Corner Bakery's beginning balance sheet.

TM 13-17. Review these entries in the Corner Bakery's Journal.

TM 13-18. Review these entries in the Corner Bakery's checking account in the ledger.

TM 13-19. Review these entries in the Corner Bakery's loan accounts in the ledger.

TM 13-20. Review these entries in the Corner Bakery's accounts payable in the ledger.

TM 13-21. Review these entries in the Corner Bakery's utility expense account in the ledger.

TM 13-22. Review the Corner Bakery's income statement or profit and loss period report.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Accounting is more advanced than bookkeeping.
2. A balance sheet is a financial summary of a business or an individual at a given point in time.
3. A profit and loss statement summarizes income and expenses over a specific time period.
4. A transaction is a financial exchange between two entities.
5. An entity is an individual or business treated as an individual.
6. A chart of accounts lists the accounts used by an individual or business entity.
7. Schedule C basically is a profit and loss statement for the year.
8. A single-entry system uses only a journal to record business activity. A checkbook – when all moneys received are deposited and checks written for all expenditures – is the simplest single-entry system.
9. A double-entry system uses both a journal and a ledger in which each transaction or event appears as a credit in one or more accounts, and as a debit in one or more accounts.
10. A debit appears in the left column.
11. A credit appears in the right column.

ANSWERS TO WORKBOOK QUESTIONS

1. Bookkeeping is the keeping of systematic records of business transactions and events. Accounting is the principles or practice of systematically recording, presenting, and interpreting financial accounts.
2. a. Sales
   b. Inventory
   c. Materials to buy
   d. Accounts receivable
   e. Accounts payable
   f. Income tax reporting
3. Accounting provides decision-making information.
4. The single-entry system uses only a journal and a checkbook.
5. A checkbook and a journal
6. Date, description of item sold, quantity, unit price, amount, clerk or sales person, tax (if any), and total received
7. Customer's name, address, and telephone number; terms of the sale; and customer signature
8. a. Up-to-date cash position
   b. Accuracy in tax reporting
   c. Accurate accounts receivable
   d. Accurate accounts payable
   e. Future projections

9. Debit and credit entries are made for each transaction.
10. Debit and credit
11. Assets = Liabilities + Net Worth
12. Transaction
13. Event
14. a. Business entity
    b. Individual entity
    c. Non-business entity
15. Journal, original book of entries
16. A transaction record
17. Depreciation
18. Date, description of the transaction, check number, debit, credit
19. Debit, credit
20. Debits = Credits
21. a. Balance Sheet
    b. Income Statement
    c. Cash Flow Forecasts

ANSWERS TO WORKBOOK VOCABULARY

1. q
2. x
3. u
4. b
5. a
6. i
7. bb
8. w
9. g
10. t
11. o
12. c
13. z
14. y
15. l
16. aa
17. r
18. h
19. j
20. n
21. d
22. e
23. p
24. m
25. v
26. s
27. f
28. cc
29. k

TM 13-1

Class Goals

Chapter 13 presents the information necessary for you to develop the following abilities:

1. To learn basic record-keeping concepts
2. To identify the single-entry accounting system
3. To identify the double-entry accounting system
4. To identify the period report

Questions to Consider

1. What records must a businessperson keep?
2. How does accounting differ from bookkeeping?
3. What is a single-entry system?
4. How does the double-entry system differ from the single-entry?
5. What is the basic accounting equation?

TM 13-3

Three Kinds of Entities

INDIVIDUAL

Jane Doe, Joe Doakes,
You, or I

Nonprofit Business or Entity

- Churches
- Chamber of Commerce
- United Way
- Visitors' Bureau

For Profit Business or Entity

- Sole Proprietorships
- Partnerships
- C-Corporations
- S-Corporations

Transactions and Events

1. **Transaction** – you buy cake flour.

   You exchange money for goods.
   (You credit checking and debit raw materials.)

   The transaction was between entities.

2. **Event** – you bake a cake and the flour cost totals $1.25; you price the cake at $11.00.

   You change raw materials into a salable cake
   (You credit raw materials and debit cakes.)

   The event was within an entity.

TM 13-5

Corner Bakery Journal

7/1	Utility deposit	Check 102	$300.00
	Gas	Utility deposit	$300.00
7/1	Utility deposit	Check 103	$750.00
	Electricity	Utility deposit	$750.00
7/1	Utility deposit	Check 104	$250.00
	Telephone	Utility deposit	$250.00

History of the business starts July 1 with utility deposits. Each transaction or event involving finances will appear in the journal with its proper date.

TM 13-6

One Ledger Account

Corner Bakery Checking Account

Date	Item	Debit	Credit	Balance
6/10	Professor's loan Deposit	$7,000		$7,000
7/1	Purchase of bakery – Check 101		$ 3,000	4,000
7/1	Utility deposit – gas – Check 102		300	3,700
7/1	Utility deposit – electricity – Check 103		750	2,950
7/1	Utility deposit – phone – Check 104		250	2,700

TM 13-7

Posting

JOURNAL ENTRY

Date	Item	Description	Debit	Credit
8/31	Wages	Check 119		$976.78
	Wages		$976.78	

LEDGER ENTRIES

Checking Account

Date	Item	Description	Debit	Credit	Balance
8/31	Wages	Check 119		$976.78	xxxx

Wages Account

Date	Item	Description	Debit	Credit	Balance
8/31	Wages	Employee	$976.78		xxxx

TM 13-8

Promissory Note

__________ Date

__________ days after this date I _______________
promise to pay __________________ the sum of
$__________________ with interest at ______ %.

____
Signature

(These are the basic elements
of a promissory note.)

TM 13-9

Notes from the Case Study

1. Unsecured loans are difficult to obtain.
2. A contract purchase may help financing.
3. Adequate operating capital is essential to success.
4. A business focus is needed.
5. Quality is important.
6. Businesses may be expanded in many different ways.
7. Businesses must keep records adequate for tax reporting.
8. Businesses frequently get their financing from relatives or friends.
9. Stacey needed to establish an IRS-approved accounting system.

TM 13-10

Why Good Records Help

They provide the following information:

1. How many sales
2. How much inventory
3. How many materials to buy
4. How many accounts receivable are due
5. How many accounts payable are due
6. How many units to build
7. All other details of an active business

TM 13-11

The Corner Bakery

__________ Date

Sold to

____

____

____

Cash ____ Charge ____ Sold by __________

Date	**Quant.**	**Item**	**Price**		**Amount**	
			Tax			
			Total			

Customer's Signature ____________________

TM 13-12

Basic Single-Entry Requirements

1. Up-to-date cash position
2. Accuracy in tax reporting
3. Accuracy of accounts receivable
4. Accuracy of payments for accounts payable
5. Help in future projections

TM 13-13

Double-Entry Accounting

Source Document
(sales ticket, invoice, etc.)

to the

Journal Entry
(date, transaction or event,
amount and account affected)

to the

Ledger Accounts
(posting the debits and credits)

TM 13-14

The Basic Accounting Equation

Assets = Liabilities + Net Worth

TM 13-15

Corner Bakery
Chart of Accounts

	Number
Asset Accounts	
Checking	101
Inventory	102
Equipment	103
Utility deposits	104
Liability Accounts	
Loans	201
Accounts payable	202
Net Worth Accounts	
Paid in capital	301
Retained earnings	302
Revenue Accounts	
Sales	401
Expense Accounts	
Cost of goods sold	501
Advertising	502
Depreciation	503
Interest	504
Rent	505
Services	506
Supplies	507
Taxes	508
Utility expense	509
Wages	510

TM 13-16

Corner Bakery
Balance Sheet

6/30/90

Assets	
Checking account balance	$7,000.00
Liabilities	
Loans	7,000.00
Net Worth	
Paid-in capital	0.00

TM 13-17

Corner Bakery
Journal Entries

Date	Item		Debit	Credit
6/10	Loan from Professor	Bank deposit	$7,000.00	
		Loans		$7,000.00
7/1	Purchase	Check 101	3,000.00	
		Capital		3,000.00
7/1	Contract for	Loans	3,000.00	
	Balance	Capital		3,000.00
7/1	Utility deposit	Check 102		300.00
	Gas	Utility deposit	300.00	
7/1	Utility deposit	Check 103		750.00
	Electricity	Utility deposit	750.00	
7/1	Utility deposit	Check 104		250.00
	Telephone	Utility deposit	250.00	
7/1	Personal loan	Deposit	1,500.00	
		Loans		1,500.00
7/1	Bank loan	Deposit	5,000.00	
		Loans		5,000.00
7/2	Food inventory	Check 105		541.85
		Supplies	541.85	

TM 13-18

Corner Bakery Checking Account

Date	Item	Debit	Credit	Balance
6/10	Professor's loan Deposit	$7,000.00		$7,000.00
7/1	Purchase of bakery Check 101		$3,000.00	4,000.00
7/1	Utility deposit – gas Check 102		300.00	3,700.00
7/1	Utility deposit – electricity Check 103		750.00	2,950.00
7/1	Utility deposit – phone Check 104		250.00	2,700.00
7/1	Loan from friend Deposit	1,500.00		4,200.00
7/1	Bank Loan - deposit	5,000.00		9,200.00
7/2	Food inventory Check 105		541.85	8,658.15
7/2	Loan payment – professor Check 106		5,000.00	3,658.15
7/31	July Sales – deposit	3,154.71		6,812.86
7/31	Trash – Check 107		38.25	6,774.61
7/31	Cleaning – Check 108		18.55	6,756.06
7/31	Paper Products – Check 109		171.03	6,585.03
7/31	Food Purchases – Check 110		1,458.15	5,126.88

TM 13-19

Corner Bakery
Loans Account

Date	Item	Debit	Credit	Balance
6/10	Professor's Loan		$7,000	$7,000
7/1	Friend's Loan		1,500	8,500
7/1	Bank Loan		5,000	13,500
7/1	Contract Loan		3,000	16,500
7/2	Partial Payment-Prof.	$5,000		11,500
7/31	Contract Payment	125		11,375

TM 13-20

Accounts Payable

Date	Item	Debit	Credit	Balance
8/31	Advertising		$476.94	$476.94
8/31	Cost of goods sold - food		6,586.69	7,063.63
8/31	Payment - cost of goods - Check 129	$4,001.70		3,061.93
9/5	Advertising - Check 137	476.94		2,584.99

TM 13-21

Utility Expense Account

Date	Item		Debit	Credit	Balance
7/31	Telephone	Check 111	$42.00		$42.00
7/31	Gas	Check 112	37.00		79.00
7/31	Electricity	Check 113	378.15		457.15
8/31	Telephone	Check 123	42.00		499.15

TM 13-22

Corner Bakery
Income Statement

7/1/90 – 12/31/90

Description	**Totals**
Bakery sales	$ 32,594.29
Cost of Sales	
Food (raw materials)	9,686.22
Total Cost of Goods	$ 9,686.22
GROSS PROFIT	**$ 22,908.07**
Expenses	
Wages	$ 6,597.64
Rent	4,405.00
Services	456.45
Utility expense	2,107.83
Advertising	1,834.39
Interest	299.10
Taxes	2,133.71
Depreciation	600.00
Total Expenses	**$19,932.37**
NET PROFIT	**$ 2,975.70**

CHAPTER 14

Interpreting the Scorecard

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To be familiar with the concepts of records in decision making
- To be familiar with the concepts of business ratios as decision aids

RESOURCE PEOPLE

1. Certified public accountant
2. Bank loan officer

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Ask a librarian to help you find published balance sheets. The current ratio for the Corner Bakery is 2.7 to 1; the debt service ratio is 15%; and the degree of solvency ratio is 2.33 to 1. This information is based on the assumption that only one fourth of the loans would be paid in the quarter.

TRANSPARENCY MASTERS

TM 14-1. Invite students to make additions to the class goals.

TM 14-2. Invite students to add questions to this list.

TM 14-3. Ask the students for additional observations.

TM 14-4. Discuss how inventory control is crucial to profitability. Money tied up in non-moving stock or a shortage of well-moving items results in decreased profits.

TM 14-5. These questions must be answered before you decide whether to lease or purchase.

TM 14-6. Discuss how business ratios are used as indicators by many people.

TM 14-7. This ratio measures the long-term overall soundness of a business.

TM 14-8. This ratio measures a business' short-term ability to survive.

TM 14-9. This ratio indicates the percentage of annual income used to retire debts.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Past sales records help predict future inventory needs.
2. Past sales records indicate to a production business when it is time to produce the items for the sales season.
3. By noting changes in demand (or sales) you can adjust orders or production schedules to match these changes.
4. Leasing may free up needed capital, or can be used when the leased item is needed for short periods of time.
5. Yes, lease payments are a deductible business expense.
6. A current ratio tells you a little about operating capital.
7. The debt service ratio compares the debt retirement costs to annual income in the form of a percentage.
8. The degree of solvency ratio indicates the long-term soundness of your business.

ANSWERS TO WORKBOOK QUESTIONS

1. Previous sales data indicate when to adjust inventories to keep adequate stock on hand.
2. Past performance
3. Total Assets / total liabilities
4. Answers will vary.
5. Current assets / current liabilities
6. Answers will vary.
7. This ratio illustrates debt reduction as a percentage of annual income.

ANSWERS TO WORKBOOK VOCABULARY

1. b
2. d
3. f
4. g
5. a
6. e
7. c
8. h

TM 14-1

Class Goals

Chapter 14 presents the information necessary for you to develop the following abilities:

1. To be familiar with the concepts of records in decision making
2. To be familiar with the concepts of business ratios as decision aids

TM 14-2

Questions to Consider

1. What are business ratios?
2. How does a lender use ratios to qualify a borrower?
3. What is the degree of solvency?
4. What is a current ratio?
5. What is a debt service ratio?
6. What are liquid assets?

TM 14-3

Notes from the Case Studies

1. Leasing equipment may help cash flow.
2. Records help when making rational decisions.
3. Financial projections are useful decision tools.
4. Projections need to be conservative.
5. Records should not be ignored in decision making.

TM 14-4

Controlling Inventory

1. Review past sales records.
2. Plan ahead for production cycles.
3. Minimize capital investment within reason.
4. Avoid too restricted, just-in-time planning.
5. Watch changing trends carefully.

TM 14-5

Lease or Purchase?

1. Will your financial position support the purchase?
2. Will immediate availability and control mandate a purchase?
3. Will the equipment be available when needed if leased on an as-needed basis?
4. What will be the tax results in leasing or purchasing?
5. Will leasing result in greater profit?

TM 14-6

Business Ratios

1. Used as a shortcut to thorough business analysis.
2. Indicate when more information is needed.
3. Used by lenders in decision making.
4. May indicate the level of performance.

Degree of Solvency Ratio

1. Soundness over time is sufficient to liquidate fixed assets.
2. Total assets divided by total liabilities
3. *Example:*

   Total assets = $75,000

   Total liabilities = $25,000

   75,000/25,000 = 3.0 to 1

TM 14-8

Current Assets Ratio

1. Liquid assets compared to current debt (payable within a year)
2. Indicates the ability to survive in the short run.
3. *Example:*

   Liquid assets = $50,000

   Current liabilities = $24,000

   50,000/24,000 = 2.1
4. When this ratio nears 1.0, the business is in trouble.

TM 14-9

Debt Service Ratio

1. Computed as a percentage of annual income.
2. Measures long-term solvency.
3. *Example:*

   Total yearly income = $200,000

   Total yearly debt payments = $30,000

   30,000/200,000 = 15%
4. The business is sound.

CHAPTER 15

The Question of Credit

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify the advantages of using credit in a business
- To identify the disadvantages of using credit in a business
- To be familiar with the common types of credit
- To identify ways of managing credit

RESOURCE PEOPLE

1. Credit manager of a major store
2. Bank loan officer

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Obtain credit card applications ahead of time for this assignment. Prepare some example APR problems to illustrate how to compute the annual percentage rate. Ask your nearest SCORE chapter for help.

TRANSPARENCY MASTERS

TM 15-1. Invite the students to suggest additional goals.

TM 15-2. Invite the students to suggest additional questions.

TM 15-3. Invite the students to make additional observations.

TM 15-4. Explain this formula for computing the APR.

TM 15-5. Use this TM to illustrate how collectors take a high percentage for themselves.

TM 15-6. Discuss the information required on a credit application.

TM 15-7. Discuss the many ways businesses use credit.

TM 15-8. Invite the students to add to this list.

TM 15-9. Invite the students to add to this list.

TM 15-10. Discuss these common types of credit.

TM 15-11. Discuss the importance of a credit policy if a business uses credit as a sales tool.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Answers should include the following:
   a. Credit increases sales volume.
   b. Credit bonds customers.
   c. Credit allows shipping on approval.
   d. Customers can make one stop instead of two.
   e. Credit information provides more facts about your customers.
   f. Special purchases can be geared to credit customers.
   g. Current credit builds goodwill.
   h. Excess funds can earn a return through credit sales.
   i. Customers who use credit are more service and quality oriented than price motivated.
2. Answers should include the following:
   a. Credit requires expenditures of the following:
      - Money
      - Bookkeeping costs
      - Postage costs
      - Interest costs
      - Employee time
   b. Credit requires more capital; this is usually a scarce commodity in a start-up business.
   c. Credit runs the risk of loss; if no losses occur, the amount of credit extended is too small.
   d. Some people using credit do not intend to pay.
   e. Credit checks take time.
   f. Economically bad times increase the risk of loss.
   g. Some credit users over-stretch their payment capacity.
   h. Credit customers are more likely to return items.
3. Credit can cause cash flow problems for a starting business.
4. Answers should include the following:
   a. Open end
   b. Installment credit
   c. Easy payments
   d. Revolving charge
   e. Proprietary credit
5. Credit applications help evaluate the risk in credit sales.

ANSWERS TO WORKBOOK QUESTIONS

1. Answers should include the following:

ADVANTAGES

Credit increases sales volume.
Credit bonds customers.
Credit allows shipping on approval.
Customers can make one stop instead of two.
Credit information provides more facts about your customers.
Current credit builds goodwill.
Special purchases can be geared to credit customers.
Excess funds can earn a return through credit sales.
Customers who use credit are more service and quality oriented than price motivated.

DISADVANTAGES

Credit costs money.
Credit creates bookkeeping costs.
Credit creates postage costs.
Credit creates interest costs.
Credit costs employee time.
Credit requires more capital.
Credit increases your risk of loss; if no losses occur, the amount of credit extended is too small.
Some people using credit do not intend to pay.
Credit checks take time.
Economically bad times increase the risk of loss.
Some credit users over-stretch their payment capacity.
Credit customers are more likely to return items.

2. Answers should include the following:
   a. Open charge account – Customer pays for purchases on agreed-upon terms.
   b. Installment credit – Payments are on a set schedule.
   c. Bank cards – For a percentage fee the card company keeps the records and bills the consumer.
3. Answers will vary.
4. Answers will vary.
5. Answers will vary.
6. Answers will vary.
7. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. q
2. a
3. c
4. f
5. o
6. i
7. m
8. l
9. b
10. g
11. p
12. n
13. e
14. k
15. d
16. h
17. j
18. r

TM 15-1

Class Goals

Chapter 15 presents the information necessary for you to develop the following abilities:

1. To identify the advantages of using credit in a business
2. To identify the disadvantages of using credit in a business
3. To be familiar with the common types of credit
4. To identify ways of managing credit

TM 15-2

Questions to Consider

1. What are the advantages for businesses to provide credit to customers?
2. What are the common types of credit?
3. What are the disadvantages of providing credit to customers?
4. What is the formula for figuring the annual percentage rate?

TM 15-3

Notes from the Case Study

1. The day of the handshake – "my word is my bond" – is usually history.
2. Credit requires adequate investigation.
3. Most businesses should not be in the credit business.
4. A **credit application** would have helped Bill's judgment of the risk.
5. Credit affects cash flow.
6. Credit can increase sales.
7. A **credit policy** is needed by any business.

Figuring the Annual Percentage Rate (APR)

1. First balance + the last balance / 2 = the average amount financed
2. Finance charge / average amount financed = APR (for a 12-month loan)
3. *Example:*

Purchase price = $1,200.00

Down payment = $200.00

Finance charge = $120.00

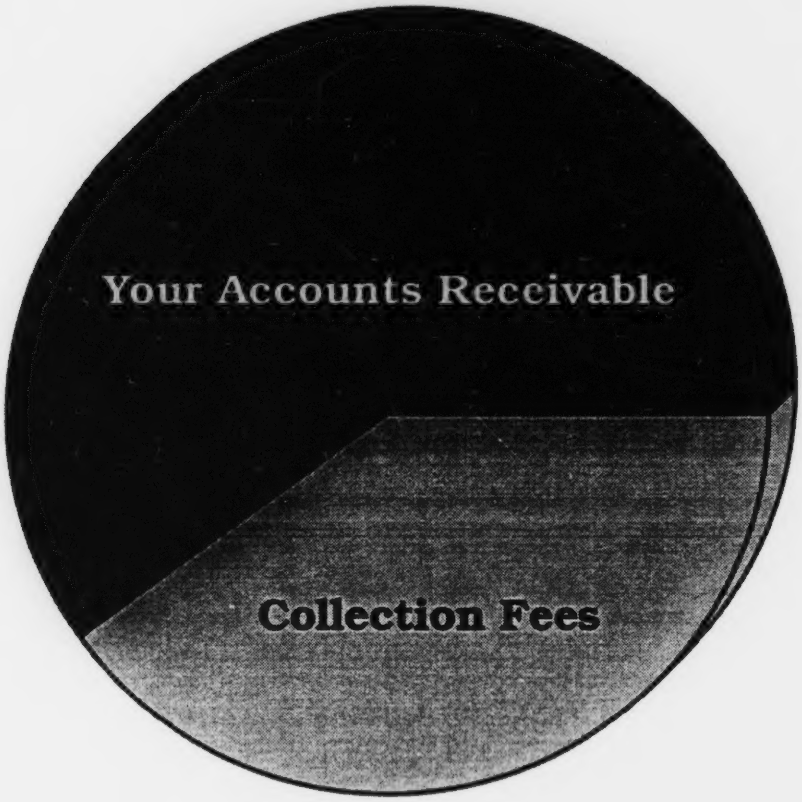
Payments = $98.33

First balance = $1,200.00 – $200.00 + $120.00 = $1,180.00 + $98.37 / 2 = $639.17

$120.00 / 639.17 = 19%

TM 15-5

Using Collection Agencies Costs a Big Slice of the Pie!



Credit Application Information

1. Identification information
2. Employment information
3. Financial information
    a. Balance sheet
    b. Income information
4. Purpose of the loan
5. Amount of the loan
6. Collateral for the loan
7. Signature and date

TM 15-7

Business Use of Credit

1. Open credit allows faster movement of goods and services.
2. Credit allows for employee business expenses through business credit cards.
3. A line of credit allows a business to have operating capital.

TM 15-8

Advantages of Credit Sales

1. Credit increases sales volume.
2. Credit bonds customers.
3. Credit allows shipping on approval.
4. Customers can make one stop instead of two.
5. Credit information provides more facts about your customers.
6. Special purchases can be geared to credit customers.
7. Current credit builds goodwill.
8. Excess funds can earn a return through credit sales.
9. Customers who use credit are more service and quality oriented than price motivated.

TM 15-9

Disadvantages of Credit Sales

---

1. Credit requires expenditures of:
   a. money
   b. bookkeeping costs
   c. postage costs
   d. interest costs
   e. employee time
2. Credit requires more capital which, in a start-up business, is usually a scarce commodity.
3. Credit increases the risk of loss; if no losses occur, the amount of credit extended is too small.
4. Some people using credit do not intend to pay.
5. Credit checks take time.
6. Economically bad times increase the risk of loss.
7. Some credit users over-stretch their payment capacities.
8. Credit customers are more likely to return items.

TM 15-10

Common Types of Credit

1. Open charge accounts
2. Installment credit or closed-end credit, also known as
   a. Easy payments
   b. Revolving credit
   c. Proprietary credit
3. Bank cards

TM 15-11

When Creating a Business Credit Policy Consider the Following:

1. Business' cash flow position
2. Profit margin on items sold
3. Sales projection comparison with or without credit
4. Type of merchandise sold on credit – is it resalable if repossessed?
5. Customer's credit rating
6. Available capital
7. Possibility of using credit card agreements instead
8. Credit terms to establish
9. Who will make credit-granting decisions?
10. Possibility of reselling the credit instruments
11. Credit terms for credit sales

CHAPTER 16

Managing Cash Flow

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify the cash flow budgeting concepts
- To be aware of the lender's viewpoint
- To identify scheduling as a part of cash flow budgeting

RESOURCE PEOPLE

1. Accountant
2. SCORE members

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

1. Bring the bank loan officer to class for the interview. Have the students prepare the questions in advance.
2. The first quarter figures given at the end of chapter 13 in the textbook indicate that their predictions are probably good.

TRANSPARENCY MASTERS

TM 16-1. Invite the students to suggest additional class goals.

TM 16-2. Invite the students to suggest additional questions.

TM 16-3. Ask the students for additional observations.

TM 16-4. Discuss the basic rule of management.

TM 16-5. Emphasize the first goal of business!

TM 16-6. Discuss the lender's alphabet.

TM 16-7. Explain each type of money used by businesses.

TM 16-8. Discuss the techniques the Baylors used for preserving liquidity.

TM 16-9. Use this TM to illustrate how to do a family budget projection.

TM 16-10. Explain this cash flow forecasting form.

TM 16-11. Discuss these five ways cash flow problems are caused and some possible remedies.

TM 16-12. The cash flow circle shows the different stages of cash payout and cash receipts.

TM 16-13. Discuss the seven questions recommended for a prospective borrower.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Cash flow refers to the timing of cash receipts and disbursements.

2. Fixed costs slowly increase; variable costs get out of control; and sales do not turn into cash fast enough (i.e., accounts receivable over 90 days old)

3. Five to ten percent

4. Answers will greatly vary; however they should include the importance of providing for the family living expenses.

5. Fixed costs are known elements and cannot easily be changed in the short run.

6. A. Accountability and ability to repay

   B. Balance sheets and income statements

   C. Character and collateral

ANSWERS TO WORKBOOK QUESTIONS

1. Survival, Survival, and Survival
2. Answers will vary but should include any of the following:
   a. Seasonal business
   b. Too much credit extended (i.e., accounts receivable too high)
   c. Accounts payable too high
   d. Inventory too large
   e. Business under-funded
   f. Insufficient cash flow
3. Answers will vary.
4. A. Accountability/ability to repay
   B. Balance sheets/income statements
   C. Character/collateral
5. To take care of its depositors
6. Answers will vary, but should include any responses listed under number 2 above.
7. The bank loan officer's best predictor of future performance of a small business manager is the record of past performance.
8. Answers will vary.
9. The lender may require that personal assets be pledged to secure the business loan.
10. Answers will vary.
11. Answers will vary.
12. Answers will vary.

13. **Answers will vary.**
14. **Answers will vary.**
15. **The particular use the businessperson has in mind for the money dictates the type of credit they should receive. For example –**
    - a. ***Trade credit*** **– this money supplies shipping on open account.**
    - b. ***Short-term credit*** **– this money is for inventory build-up and is to be repaid in a year or less.**
    - c. ***Long-term credit*** **– this money is for real estate purchases and is to be repaid over a longer period of time.**
    - d. ***Equity funds*** **– this money is paid up front in exchange for ownership in the business.**
16. The line of credit concept entails matching cash flow projections with the business cash flow cycle. When a business needs to borrow money for short-term use, the arrangements are made in advance.
17. The answer to this question appears on the following page.

ANSWERS TO WORKBOOK VOCABULARY

1. c
2. a
3. e
4. f
5. b
6. d
7. g
8. i
9. h

17. Answers should include the following figures:

CORNER BAKERY CASH FLOW FORECAST

Six Months: April through September, 1991, Inclusive

Description	April	May	June	July	August	September
CASH RECEIPTS						
Cash Sales	$12,000	$13,000	$13,000	$15,000	$16,000	$16,000
CASH DISBURSEMENTS						
Rent	755	755	755	755	755	755
Advertising	300	300	300	300	300	30
Bank Loan Payment	160	160	1,040	1,040	1,040	1,040
Contract Purchase Payment	140	140	140	140	140	140
Food Inventory Purchases	3,000	4,000	3,500	4,000	4,000	4,000
Net Wages	2,370	2,370	2,370	2,765	2,765	2,765
Payroll Taxes	965	965	965	1,125	1,125	1,125
Utilities	420	450	475	500	500	525
Services	50	50	50	50	50	50
Total Cash Disbursements	$8,160	$9,190	$9,595	$10,675	$10,675	$10,700
Net Cash Flow from Operations	$3,840	$3,810	$3,405	$4,325	$5,325	$5,300
INVESTING ACTIVITIES						
Equipment Purchases			$12,000	$14,000		
FINANCING ACTIVITIES						
New Bank Loan			17,500			
Net Cash Flow Before Draw	$3,840	$3,810	$8,905	($9,675)	$5,325	$5,300
Owner's Draw	4,000	4,000	4,000	4,000	4,000	4,000
Net Cash Flow After Draw	($160)	($190)	$4,905	($13,675)	$1,325	$1,300
Beginning Cash Balance	11,514	11,354	11,164	16,069	2,394	3,719
Ending Cash Balance	$11,354	$11,164	$16,069	$2,394	$3,719	$5,019

TM 16-1

Class Goals

Chapter 16 presents the information necessary for you to develop the following abilities:

1. To identify the cash flow budgeting concepts
2. To be aware of the lender's viewpoint
3. To identify scheduling as a part of cash flow budgeting

TM 16-2

Questions to Consider

1. What contributes to cash flow problems?
2. What are the lender's A B C's of lending money?
3. How will cash flow problems negatively impact my business?
4. How will a line of credit alleviate cash flow problems?
5. What is a cash flow circle?
6. How do accounts receivable impact cash flow?
7. What are the four kinds of money used in a business?

TM 16-3

Notes from the Case Studies

1. Some businesses frequently have cash flow problems.
2. In a seasonal business cash flow is a special concern.
3. Computers speed up the paperwork of billing.
4. Credit limits are frequently negotiable.
5. Prudent management actions can aid cash flow.
6. Changing a business' name can affect cash flow.
7. A transition period aids a business change in ownership.
8. Large inventories tie up cash.
9. Slow accounts receivable tie up cash.
10. Extra services build business.
11. Rental of unused space aids cash flow.
12. Some financial crises are really only managerial.
13. Many businesses are under-funded.

TM 16-4

The First Rule of Business Cash Flow

You cannot select any recipe combination that you can't cash flow!

IF YOU CAN'T CASH FLOW IT –
YOU CAN'T DO IT!

TM 16-5

The First Three Goals of a Business

1. SURVIVAL!
2. SURVIVAL!
3. SURVIVAL!

TM 16-6

The Lender's
A B C's of Lending

A. Accountability and ability to repay
B. Balance sheets and income statements
C. Character and collateral

TM 16-7

Types of Money Used by Businesses

1. Trade credit
2. Short-term credit
3. Long-term credit
4. Equity funds

TM 16-8

Ways the Baylors Preserved Liquidity

1. Selling a fixed asset.
2. Converting unused space into income-producing space.
3. Using computer-aided inventory control.
4. Using computer-aided billing.
5. Using computer-aided sales promotion.

Family Budget Projection

Family living – 19xx

Expenditures	Month 1	Month 2	Month 12	TOTALS
Food				
Clothing				
House payments				
Home repairs				
Furnishings				
Utilities & fuel				
Education				
Recreation				
Transportation				
Health				
Personal care				
Health insurance				
Life and other insurance				
Savings				
Gifts and donations				
Other expenditures				
Totals				

TM 16-10

Cash Flow Projection

Items	**Initial**	**Month 1**	**Month 2**	**Month 12**	**Totals**
FIXED EXPENSES					
Rent					
Utilities					
Insurance					
VARIABLE EXPENSES					
Advertising					
Inventory					
Sales commissions					
Transportation					
Office supplies					
Total cash needed					
INCOME					
Beginning cash balance					
Sales					
Services					
Total cash available					
Cash balance					

(A negative balance indicates the amount of loan money needed for the month.)

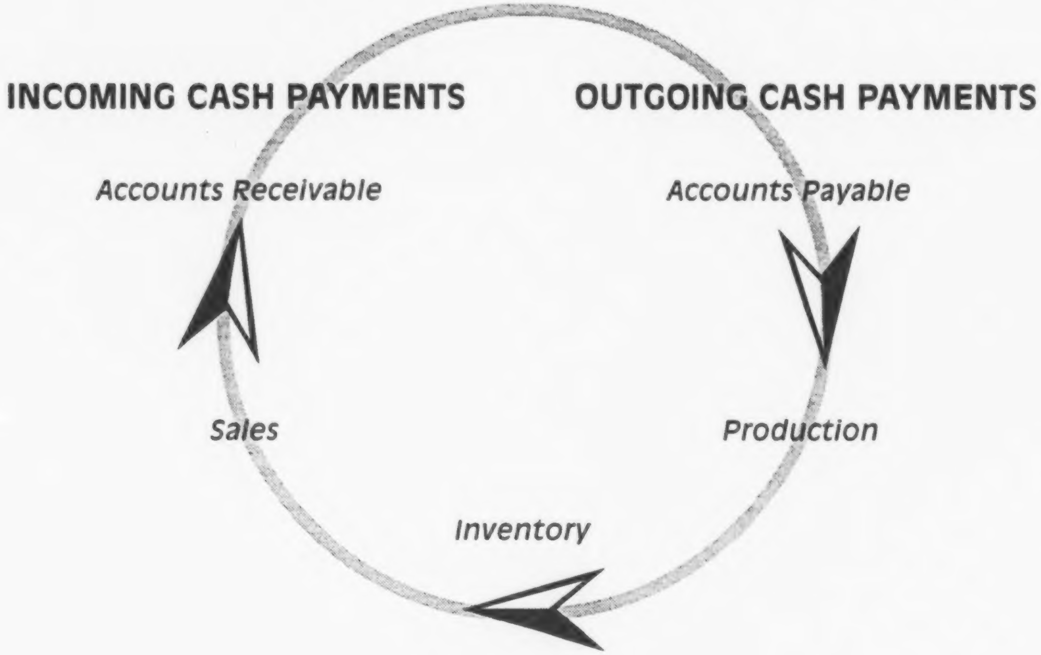
TM 16-11

Cash Flow Problems Are Caused by:

1. Fixed costs creeping upward.
2. Variable costs getting out of control.
3. Sales not turning into cash fast enough (i.e., accounts receivable over 90 days old).
4. Maintaining an overloaded inventory.
5. Absorbing bad debts.

TM 16-12

Cash Flow Circle



INCOMING CASH PAYMENTS

Accounts Receivable

Sales

OUTGOING CASH PAYMENTS

Accounts Payable

Production

Inventory

TM 16-13

George Dawson's Seven Questions

1. How much money do you require?
2. What are the purposes of the loan?
3. How will the loan help your business?
4. Why do you need the money?
5. When will you pay it back?
6. How will you be able to pay it back?
7. What if your plans fail?

CHAPTER 17

Business Taxes

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To be familiar with business taxes
- To identify specific tax forms business owners must file
- To identify deadlines for federal tax filing dates

RESOURCE PEOPLE

1. Commercial tax preparer
2. Accountant
3. Internal Revenue Service personnel

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Obtain the needed forms from the IRS office or have the students visit their branch office.

TRANSPARENCY MASTERS

TM 17-1. Invite the students to suggest additional class goals.

TM 17-2. Invite the students to suggest additional questions.

TM 17-3. Invite the students to make additional observations.

TM 17-4. Discuss these important taxes.

TM 17-5. Discuss these types of assistance which are available from the IRS.

TM 17-6. Discuss these types of assistance which are available from other sources.

TM 17-7. Discuss these sources of state tax information.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Loss of the deduction and or penalties
2. The *IRS* offers the following assistance: community outreach tax education; volunteer income tax assistance; small business tax education; practitioner education; understanding taxes; and bank, post office, and library programs.

   State tax authority assistance can be obtained from the State Department of Revenue and Taxation or Equalization, State Department of Commerce or Minority Business Development, State Employment Commission or Employment Security, and State Department of Economic Development or Business.

   The *Small Business Administration* also offers many publications at small cost.
3. The SS-8 form is used to determine that status.

ANSWERS TO WORKBOOK QUESTIONS

1. Penalties and interest
2. Employers
3. Answers can include receipts for travel, transportation, entertainment, business gifts, and deductions for business property
4. Remit periodically
5. Withhold, deposit in a bank
6. Form 8829, Publication 552, *Record Keeping for Individuals*
7. Form 940 is filed annually to report FUTA taxes; Form 941 is filed quarterly to report FICA taxes.
8. Three
9. This number identifies the business for all tax matters.
10. Answers will vary. (Refer to Figure 17-2 in the textbook.)
11. (Question omitted in textbook.)
12. Answers will vary.
13. Records which determine original or replacement property, and records which show adjustments made during a change of accounting methods.
14. The cash method requires businesses to report income and expenses in the year that income is received and when expenses are paid out.
15. The accrual method requires businesses to report income and expenses in the year the obligation is incurred.

ANSWERS TO WORKBOOK VOCABULARY

1. a
2. h
3. k
4. e
5. c
6. d
7. f
8. b
9. g
10. i
11. j

TM 17-1

Class Goals

Chapter 17 presents the information necessary for you to develop the following abilities:

1. To be familiar with business taxes
2. To identify specific tax forms business owners must file
3. To identify deadlines for federal tax filing dates

TM 17-2

Questions to Consider

1. Where does a business owner get help with income tax questions?
2. What tax assistance does the IRS provide?
3. What other sources of information are available?
4. What payroll taxes are required for employers?
5. What are the deadlines set for tax filings?

TM 17-3

Notes from the Case Studies

1. Check with tax authorities before starting a business.
2. The Internal Revenue Service is free and has an 800 number.
3. Identify the needed records and how tax laws apply.
4. Maintain an organized record system.
5. Friends may not know all the facts.
6. The burden of proof is on the business owner.
7. Advance preparation saves time and money.
8. Errors and omissions can cost penalties and interest.
9. Preventing tax problems is less costly than incurring interest and penalties.
10. If you choose to do your own taxes, invest the time to learn properly.

TM 17-4

Checklist of Possible Tax Liability

You May Be Liable for:	If You Are:	Use Form:	Due On or Before:
Income tax	Sole proprietor, individual who is a partner or S-corporation shareholder	Schedule C, F 1040	Same day as Form 1040 15th day of 4th month after end of tax year
	Corporation	1120 or 1120-A	15th day of 3rd month after end of tax year
	S-corporation	1120S	15th day of 3rd month after end of tax year
Self-employment tax	Sole proprietor, or a partner	Schedule SE Form 1040)	Same day as Form 1040
Estimated tax	Sole proprietor, partner, or S-corporation shareholder	1040-ES	5th day of 4th, 6th, and 9th month of tax year and 15th of 1st month after end of year
	Corporation	1120-W	15th day of 4th, 6th, 9th, and 12th months of tax year
Annual return of income	Partnership	1065	15th day of 4th month after end of tax year
Social security (FICA) tax and withholding of income taxes	Sole proprietor, corporation, S-corporation, or partnership	941	4-30, 7-31
		8109 (to make deposits)	10-31, and 1-31 (See Chapter 34)
Providing information on social security (FICA) tax and the withholding of income taxes	Sole proprietor, corporation, S-corporation, or partnership	W-2 (to employee)	1-31
		W-2 and W-3 (to the Social Security Admin.)	Last day of February
Federal unemployment (FUTA) tax	Sole proprietor, corporation, S-corporation, or partnership	940, 940-EZ	1-31
		8109 (to make deposits)	4-30, 7-31, 10-31, and 1-31 but only if tax liability is more than $100
Information returns for payments to non-employees transactions with other persons	Sole proprietor, corporation, S-corporation, or partnership	1099-MISC (See Chapter 37)	To recipient by 1-31 and to IRS by 2-28
Excise taxes	Sole proprietor, corporation, S-corporation, or partnership	(See Chapter 36)	See the instructions to the forms

TM 17-5

IRS Assistance

1. Community outreach tax education
2. Volunteer income tax assistance
3. Small business tax education
4. Bank, post office, and library programs
5. Practitioner education
6. Understanding taxes

TM 17-6

Other Sources of Tax Information

1. Score
2. SBDC
3. Social Security Administration
4. Small Business Administration
5. National Federation of Independent Businesses
6. National Association of the Self-Employed
7. National Association of Independent Contractors
8. U.S. Chamber of Commerce
9. National Society of Certified Public Accountants

TM 17-7

Sources of State Tax Information

1. State Department of Revenue, Taxation or Equalization
2. State Department of Commerce or Minority Business Development
3. State Employment Commission or Employment Security
4. State Department of Economic Development or Business Regulation
5. Governor's Office of Community and Industrial Development
6. Governor's Office of Minority and Small Business Development
7. Small Business Development Center or Small Business Resource Center

PART V

Managing Small Business

CHAPTER 18

Delegating Details

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify procedures to follow in hiring employees
- To identify the elements of a job description
- To identify the components of an employment application
- To identify the elements of an employee training plan
- To identify the elements of an employee incentive plan

RESOURCE PEOPLE

1. SCORE members
2. Successful managers

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

Prior to this assignment, collect newsletters and agendas for meetings you have attended.

TRANSPARENCY MASTERS

TM 18-1. Invite the students to suggest additional class goals.

TM 18-2. Invite the students to suggest additional questions.

TM 18-3. Ask the students for additional observations.

TM 18-4. Emphasize that writing a good job description is the starting place for recruiting desirable employees.

TM 18-5. Discuss these sources for locating employees.

TM 18-6. Discuss these recommended steps for recruiting employees.

TM 18-7. Stress the importance of developing your own application.

TM 18-8. Discuss these ideas for starting your own checklist for applicant evaluation.

TM 18-9. Explain that supervisory skill basically means possessing good people skills. Discuss these things to use when selecting supervisors.

TM 18-10. Use this sample agenda to help the students formulate one of their own.

TM 18-11. Discuss these elements of an incentive plan which you could use in your business.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. It is threatening because you are inexperienced and know that you are totally responsible for the success of your business.
2. Use employment agencies, advertise in newspapers, contact school placement officials, and your own observations or those of your friends.
3. Writing the job description
4. An application form gives each applicant an equal opportunity, plus you have equivalent information about each applicant. This makes comparison easier.
5. First put the applicant at ease so you can fairly evaluate him or her.
6. Orientation acquaints the employee with the business and its procedures; training demonstrates to the employee how the job is accomplished.
7. Everyone must be up to date on those items which affect their jobs.

ANSWERS TO WORKBOOK QUESTIONS

1. Answers will vary.
2. Answers should include any of the following:
   a. State Employment Agency
   b. Private Employment Agency
   c. Referrals or similar sources
3. a. Develop your company's application form.
   b. Select applicants who meet your "must-have" criteria.
   c. Prepare for the interview(s).
   d. Conduct the interview(s).
   e. Make your selection and notify the applicants.
4. Answers will vary.
5. Answers will vary.
6. Answers will vary.
7. Answers will vary.
8. Answers will vary.
9. Answers will vary.
10. Answers will vary.
11. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. g
2. i
3. a
4. c
5. e
6. b
7. f
8. d
9. h
10. j

TM 18-1

Class Goals

Chapter 18 presents the information necessary for you to develop the following abilities:

1. To identify procedures to follow in hiring employees
2. To identify the elements of a job description
3. To identify the components of an employment application
4. To identify the elements of an employee training plan
5. To identify the elements of an employee incentive plan

TM 18-2

Questions to Consider

1. When recruiting employees what procedure should be followed?
2. What are the components of an employee application?
3. Why use a checklist in orientation and when training new employees?
4. What are possible elements of an employee incentive plan?

TM 18-3

Notes from the Case Study

1. New employees must be carefully selected.
2. New employees must have training and direction.
3. Public relations are important.
4. Bob had been trained as an apprentice without any formal thought about training.
5. Knowledge of the business is valuable; Bob was a farmer.
6. A personal stake in the business' success is a great incentive.
7. Human relations are important.

TM 18-4

Job Description

Job Title: Truck Driver's Assistant

QUALIFICATIONS:

1. Possesses a valid chauffeur's license.
2. Is bondable.
3. Has knowledge of and experience with livestock.
4. Has knowledge of and experience with grain handling.
5. Has knowledge of truck maintenance.
6. Is able to make simple repairs.
7. Is flexible regarding scheduling and traveling to distant markets.
8. Is flexible regarding working hours.
9. Is able to write sales tickets.
10. Is able to compute bushels from weight tickets.
11. Is able to operate a truck scales.
12. Is able to prepare trucks for the hauling job.
13. Is able to tarp a load.
14. Is able to arrange weight distribution.

TM 18-5

Sources for Locating Employees

1. State employment offices
2. Private employment agencies
3. Newspapers
4. Community schools
5. College or university placement offices
6. Cooperative education programs
7. Personal observation
8. Referrals from friends or others

TM 18-6

Steps for Recruiting Employees

1. Write a job description and complete an application form.
2. Read the applications.
3. Prepare to conduct the interviews.
4. Put the applicant at ease and conduct the interview.
5. Make your selection.
6. Notify the applicants.

TM 18-7

Employment Application

Name ______________________ SS# ____________
Address ____________________ Phone____________
______________________ Date of Birth ____________

EDUCATIONAL BACKGROUND

Schools Attended Dates Degrees Awarded
____

Other Training (technical, trade, military)
____

EMPLOYMENT HISTORY (most recent first)

Name/Address	Dates	Salary	Duties	Reason for Leaving

1. ____
2. ____
3. ____

REFERENCES

Name three persons we may contact who are familiar with your qualifications.

Name	Address/Phone	Relationship

1. ____
2. ____
3. ____

Include any special qualifications or comments on the back of this form.

Date ________ Signature ________________________

TM 18-8

Interview Checklist

1. Was this applicant sensitive to others?
2. Was the applicant easy to talk to?
3. Was the applicant comfortable in the interview?
4. Did the applicant have an aura of self-worth?
5. Did the applicant have the ability to keep feelings under control?
6. Did the applicant seem to be a caring person?
7. Did the applicant have a general air of trust?

Selecting Supervisors

1. Does this person have excellent people skills?
2. Does this person have experience in your industry?
3. Can this person motivate others?
4. Can this person correct problems fairly without antagonizing the corrected parties?
5. Can this person take initiative to get things done?
6. Can this person work without prompting?
7. Does this person have planning skills?
8. Does this person have the ability to anticipate the needs?
9. Can this person get to the root of a problem and keep it from getting out of hand?
10. Does this person have the flexibility to handle the sudden absence of a worker?
11. Will this person know the workers well enough to be able to develop their potential?

TM 18-10

Sample Agenda

Minutes approval	Donna
Treasurer's report	Henry
Sales report	Joan
Pending contracts	Henry
Progress on model 95-15 retooling	Howard
Report from the zoning commission	Jill
Report from the company picnic committee	Josh
Coming events	Bob
Question time	Everyone
Adjournment	

TM 18-11

INCENTIVE PLAN ELEMENTS

1. Should be tied to measurable results.
2. The results should improve the bottom line.
3. Improve the product and thus, indirectly, the bottom line.
4. The measurable results should be above a previously set standard.
5. The plan must be seen as fair by all employees.
6. The plan must be affordable to the company.
7. The company must reach the profitability stage before the plan is instituted.

What Risks Are There?

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify the four risk management strategies
- To identify pure and speculative risks
- To define the concept of insurance

RESOURCE PEOPLE

1. Independent insurance agency representative
2. SCORE personnel

TIPS FOR FOLLOW-UP ACTIVITIES IN THE TEXTBOOK

1. Ask a reference librarian for help. Your local independent insurance agent may also be a source of help.
2. Have the class prepare questions before the insurance agent comes to class.

TRANSPARENCY MASTERS

TM 19-1. Invite the students to suggest additional class goals.

TM 19-2. Invite the students to suggest additional questions.

TM 19-3. Ask the students for additional observations.

TM 19-4. Emphasize that the most prevalent cause of failure is inadequate finances. Ask the students to suggest additional causes.

TM 19-5. Discuss each of these risk management strategies.

TM 19-6. Discuss these two types of risk. Point out that you can protect yourself from one by purchasing insurance.

TM 19-7. Discuss each type of insurance coverage which a businessperson must consider.

TM 19-8. Discuss the different ways you can reduce your insurance costs.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Risk is a chance for loss, this chapter deals with losses for the business in any form – property or finances.
2. Some common causes of business failure include inadequate funding, cash flow problems, no provision for unexpected events such as a fire or windstorm damage, poor market evaluation, poor planning, under-estimation of costs, failure to specify payment terms, overly optimistic sales estimates, dishonesty, and improper pricing of services or products.
3. Risk management strategies can help a young business survive.
4. Risk avoidance, risk transfer, risk reduction, and risk retention
5. Life, health, liability, and property are most often considered the most essential.
6. Payment can be made through repair or replacement, or payment at current market value.
7. Usually 60 days
8. Coinsurance means loss sharing between the insured party and the insurance company by contract.
9. Liability insurance protects your business from liability for injury or loss to others due to your business activities.
10. Crime insurance protects your business from losses due to the criminal activities of others.
11. Recognize the various ways you can suffer loss. Following the guides for buying insurance economically. Organize your insurance management program. Get professional advice.

ANSWERS TO WORKBOOK QUESTIONS

1. Risk management is selecting which option to implement. The four options are risk avoidance, risk reduction, risk retention, and risk transfer.
2. Answers can include any of the following:
   a. Under-funding
   b. Poor planning
   c. Poor market evaluation
   d. Under-estimation of costs
   e. Overly optimistic sales projections
   f. Dishonesty
   g. Improper pricing

3.

	Risk Management	**Definition**	**How It Applies to My Business**
a.	Risk avoidance	Avoiding activities that increase risk	Answers will vary.
b.	Risk reduction	Using training sessions	Answers will vary.
c.	Risk retention	Carrying the risk by not purchasing insurance	Answers will vary.
d.	Risk transfer	Purchasing insurance	Answers will vary.

4. Answers will vary.
5. Answers will vary.
6. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. r
2. b
3. f
4. h
5. j
6. m
7. s
8. o
9. d
10. p
11. c
12. a
13. q
14. l
15. n
16. k
17. g
18. e
19. i

TM 19-1

Class Goals

Chapter 19 presents the information necessary for you to develop the following abilities:

1. To identify the four risk management strategies
2. To identify pure and speculative risks
3. To define the concept of insurance

TM 19-2

Questions to Consider

1. What are the four risk management strategies?
2. What are the causes of business failures?
3. What are the types of insurance available to a business?
4. How do speculative and pure risk differ?
5. What is risk management?
6. What is risk transfer?

TM 19-3

Notes from the Case Studies

1. An insurance policy is a binding legal contract having standard policy provisions, conditions, limitations, (or exclusions).
2. When a business use is made of your home, vehicle, or personal property, consult your insurance agent.
3. Increasing exposure may require rewriting the policy at a higher premium due to the business pursuit.
4. Insurance can provide for insurable risks.
5. Even the smallest businesses may need insurance.
6. Review your insurance policies annually and raise questions with your agent concerning points you do not understand.

TM 19-4

Business Failures Are Caused By:

1. Inadequate financing
2. Cash flow problems
3. No provision for unexpected events such as a fire or windstorm damage
4. Poor market evaluation
5. Poor planning
6. Under-estimation of costs
7. Failure to specify payment terms
8. Overly optimistic sales estimates
9. Dishonesty
10. Improper pricing of services or products

TM 19-5

Risk Management Strategies

1. Risk avoidance
2. Risk reduction
3. Risk retention
4. Risk transfer

Types of Risk

1. **Speculative risk** – risk of loss in starting a business
2. **Pure risk** – insurable risk such as a fire, windstorm, or similar event

TM 19-7

Insurance Coverage for a Small Business

1. Life Insurance
2. Health Insurance
3. Liability Insurance
4. Property Insurance

TM 19-8

When Buying Insurance:

1. Write down what you expect of your insurance
2. Select one agent to handle your insurance.
3. Assign responsibility for the insurance program.
4. Prevent losses.
5. Treat your agent as a professional helper.
6. Don't under-insure or decline to cover perils which could cause loss, especially if the premiums are small.
7. Keep complete records; they will help you in the future.
8. Have your property appraised; it will indicate what your exposures are.

CHAPTER 20

Managing Business Expansion

INSTRUCTIONAL GOALS

This chapter provides aids for instilling the following abilities in your students:

- To identify methods of expansion
- To identify signs of needed expansion
- To become familiar with computer-assisted decisions

RESOURCE PEOPLE

1. SCORE members
2. Executive from a recently expanded business
3. Computer store manager

TIPS FOR FOLLOW-UP ACTIVITIES IN THE TEXTBOOK

1. Have students prepare questions before the resource person comes to class.
2. Ask a local computer outlet manager to demonstrate how spreadsheets are used in business.
3. Ask for help from your local Chamber of Commerce secretary to locate businesses which have recently expanded.

TRANSPARENCY MASTERS

TM 20-1. Invite students to suggest additional class goals.

TM 20-2. Invite students to suggest additional questions.

TM 20-3. Invite students to make additional observations.

TM 20-4. Discuss the various ways to conduct market research. Recommend that the students review Chapter 8 – Studying the Market Place.

TM 20-5. Discuss these signs that expansion is necessary for the continued success of your business.

TM 20-6. Discuss the various ways in which computers can help your business; e.g., spreadsheets can do many recalculations in minimal time.

TM 20-7. Discuss this list of possible ways to expand your business.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. Answers can include any five of the following:
    - a. Stay open more hours.
    - b. Increase the number of merchandise lines.
    - c. Add more machines to production lines.
    - d. Add a second or third shift of workers in the plant.
    - e. Build a new plant.
    - f. Hire more sales people.
    - g. Adopt new technology and machines.
    - h. Subcontract some work.
2. The business plan update will help indicate if expansion is financially feasible or potentially profitable.
3. Answers can include any of the following:
    - a. The business has outgrown the space.
    - b. The business has unused capital.
    - c. The customers are asking for new items.
    - d. The employees are under-utilized.
    - e. The business has extra space.

ANSWERS TO WORKBOOK QUESTIONS

1. Answers will vary.
2. Answers will vary.
3. Answers will vary.

ANSWERS TO WORKBOOK VOCABULARY

1. c
2. d
3. f
4. h
5. b
6. e
7. a
8. g

Class Goals

Chapter 20 presents the information necessary for you to develop the following abilities:

1. To identify methods of expansion
2. To identify signs of needed expansion
3. To become familiar with computer-assisted decisions

TM 20-2

Questions to Consider

1. What are methods for expansion?
2. What are indicators of needed expansion?
3. How can computer spreadsheets be used in determining expansion?
4. How do zoning ordinances affect home-based businesses?

Notes from the Case Studies

1. Jack had the entrepreneurial spirit.
2. Jack started a home-based business.
3. His initial investment was small.
4. Word-of-mouth advertising helped his business.
5. Jack sought advice when he needed it.
6. Jack researched the possible expansion and wrote a business plan.
7. With Jim's help, Jack's business grew nicely.
8. A support team is valuable to an entrepreneur.
9. Business experience helped Henry.
10. A spouse's support and second income is important.
11. Henry did his market research.
12. Henry let his customers guide his expansion.
13. Henry used a computer to research a possible move.
14. Henry used sales records to decide which merchandise lines to expand.

TM 20-4

Henry Conducts Market Research

TM 20-5

Expansion Signals

1. Has the business outgrown the space?
2. Have customers been asking for other items?
3. Will additional lines boost profits?
4. Are current personnel under-utilized?
5. Will expansion into the new line improve the competitive position?
6. Will the proposed expansion cash flow?
7. Will expansion draw more customers?
8. Does the business have under-used capital?
9. Does the business have under-used space?
10. Would expansion hinder operating capital?

TM 20-6

Computers Can Help

TM 20-7

Ways to Expand

1. Stay open more hours.
2. Increase the number of merchandise lines.
3. Add more machines to production lines.
4. Add a second or third shift of workers in the plant.
5. Build a new plant.
6. Hire more sales people.
7. Adopt new technology and machines.
8. Subcontract some work.

CHAPTER 21

Legal Concerns for Your Business

INSTRUCTIONAL GOAL

This chapter provides aids for instilling the following abilities in your students:

- To become familiar with the legal aspects of a business venture.

RESOURCE PEOPLE

1. Local lawyer specializing in business law
2. Members of SCORE

TIPS FOR FOLLOW-UP ACTIVITIES IN TEXTBOOK

1. Have the students use the partnership agreement in Appendix A in the textbook as a model; however, their agreements do not have to be as detailed as this one.
2. Ask the reference librarian to help in your search for other examples.

TRANSPARENCY MASTERS

TM 21-1. Invite the students to suggest additional class objectives.

TM 21-2. Invite the students to suggest additional questions.

TM 21-3. Invite the students to make additional observations.

TM 21-4. Discuss these legal concerns of a sole proprietorship.

TM 21-5. Discuss these legal concerns of a partnership.

TM 21-6. Discuss these legal concerns of S-corporations.

TM 21-7. Discuss these legal concerns of C-corporations.

ANSWERS TO QUESTIONS TO INCREASE YOUR UNDERSTANDING OF THE TEXT

1. In some states a sole proprietor needs to file a business name, other states may have no formal requirements.
2. Although no formal papers must be filed, partnerships are generally governed by the Uniform Partnership Act.
3. An S-corporation must file the election as an S-corporation. In addition, the corporation must file Articles of Incorporation and Bylaws. Most states also require an annual report.
4. Unless an election as an S-corporation form is filed, a corporation becomes a regular or C-corporation and files the Articles of Incorporation and Bylaws. Most states also require an annual report.
5. In a *partnership*, each individual is obligated for any money loaned to the partnership.

   In an *S-corporation*, the individual is sheltered from any obligation beyond the value of stock owned unless a personal note was required for the loan. The profits or losses by an S-corporation are taxed to the individual.

   In a *C-corporation*, the individual is also sheltered. The difference between S- and C-corporations is in the tax basis. In the C-corporation the income of the corporation is taxed; the dividends are then taxed from the individual owners.
6. The termination should be considered to prevent business disruption by death or divorce of the owners.

ANSWERS TO WORKBOOK QUESTIONS

1. a. Sole proprietorship
   b. Partnership
   c. Corporation
2. None
3. In a *sole proprietorship*, one owner takes the risk and receives the profits (or losses).

   In a *partnership*, the owners divide the risk as well as the profit or losses.

   In a *corporation*, risk and profits are distributed according to the number of shares each member owns.
4. The rights and liabilities are determined by State law.
5. This act governs the rights, duties and liabilities of each partner.
6. a. *S-corporation* – Profits and losses pass through to owners for tax purposes.
   b. *C-corporation* – income is taxed and then owners are taxed on dividends.

Characteristics of Business Forms

	SOLE PROPRIETORSHIP	PARTNERSHIP	S-CORPORATION	C-CORPORATION
Definition	An individual operates the business and assumes the risk. There are few formal requirements.	Two or more individuals own the business. Few formal requirements, but an agreement is recommended.	Ownership by shares, strict guidelines, limited liability, and taxed as an individual.	Ownership by shares, strict guidelines, limited liability, and taxed as an entity; dividends also taxed.
Financial Obligations	Owner assumes all the risks, receives the profits, or suffers the losses.	All partners are liable, but risks and rewards are shared.	May require personal assets pledged for loans.	May require personal assets pledged for loans.
Management Structure	Owner makes all the decisions.	Management decisions are more complex.	Shareholders elect directors who control management.	Shareholders elect directors who control management.
Purchases/ Sales	Any sale over $500 must be in writing to be enforceable.	Any sale over $500 must be in writing to be enforceable.	Any sale over $500 must be in writing to be enforceable.	Any sale over $500 must be in writing to be enforceable.
Licensing/ Regulations	Local governments have special regulations; for example, food vendors.	Local governments have special regulations; for example, food vendors.	Local governments have special regulations; for example, food vendors.	Local governments have special regulations; for example, food vendors.
Compliance with Law	Must comply; for example:, withholding taxes.	Must comply; for example, withholding taxes.	Must comply; for example, withholding taxes.	Must comply; for example, withholding taxes.
Liability	Liable for acts of employees.	Liable for acts of employees.	Liable for acts of employees.	Liable for acts of employees.
Ownership Changes	Owner may sell entire business.	Not as easy to terminate.	Corporations have continuous existence, shares can be bought and sold.	Corporations have continuous existence, shares can be bought and sold.

ANSWERS TO WORKBOOK VOCABULARY

1. k
2. c
3. d
4. b
5. g
6. f
7. j
8. h
9. i
10. e
11. a
12. j
13. l

TM 21-1

Class Goal

Chapter 21 presents the information necessary for you to develop the following abilities:

- To become familiar with the legal aspects of a business venture.

TM 21-2

Questions to Consider

1. What documents does a sole proprietor need to file?
2. What documents does a partnership need to file?
3. What documents does an S-corporation need to file?
4. What documents does a C-corporation need to file?
5. How do loan obligations affect individuals in a partnership?

   In an S-corporation?

   In a C-corporation?
6. Why should the possible termination of a business be considered when starting?

TM 21-3

Notes from the Case Study

1. Many enterprises get their initial push from an unwanted transfer.
2. Many enterprises start as a sideline.
3. Many budding entrepreneurs need only the nudge.
4. When a business starts there are legal concerns.
5. Supervisory skills from previous experience are helpful in a new venture.
6. Recent history is replete with instances of businesses moving off shore.

TM 21-4

Sole Proprietorships

ORGANIZATION

1. An individual owns and operates the business.
2. The owner makes all the decisions.

FINANCES

- All individual assets may be at risk.

BUSINESS OPERATIONS

1. Uniform commercial code rules business-to-business transactions.
2. Consumer protection laws govern sales.
3. Must meet local, state, and national regulations.

LIABILITY

- Owner is liable for all business activity.

TM 21-5

Partnerships

ORGANIZATION

1. Two or more individuals own and operate the business.
2. Decision making is split between the partners.

FINANCES

1. Both partners are liable for all partnership debts.
2. All personal assets may be at risk.

BUSINESS OPERATIONS

1. Uniform commercial code rules business-to-business transactions.
2. Consumer protection laws govern sales.
3. Must meet local, state, and national regulations.

LIABILITY

- Each partner is liable for all business activities.

TM 21-6

S-Corporations

ORGANIZATION

1. Ownership is by stock shares.
2. Management is by officers and directors.

FINANCES

1. Only stock value is at risk.
2. Shares or dividends are taxed per individual.

BUSINESS OPERATIONS

1. Uniform commercial code rules business-to-business transactions.
2. Consumer protection laws govern sales.
3. Must meet local, state, and national regulations.
4. Must file annual reports.
5. Annual meeting may ratify decisions.

LIABILITY

- Shareholders are sheltered beyond stock share value.

C-Corporations

ORGANIZATION

1. Ownership is by stock shares.
2. Management is by officers and directors.

FINANCES

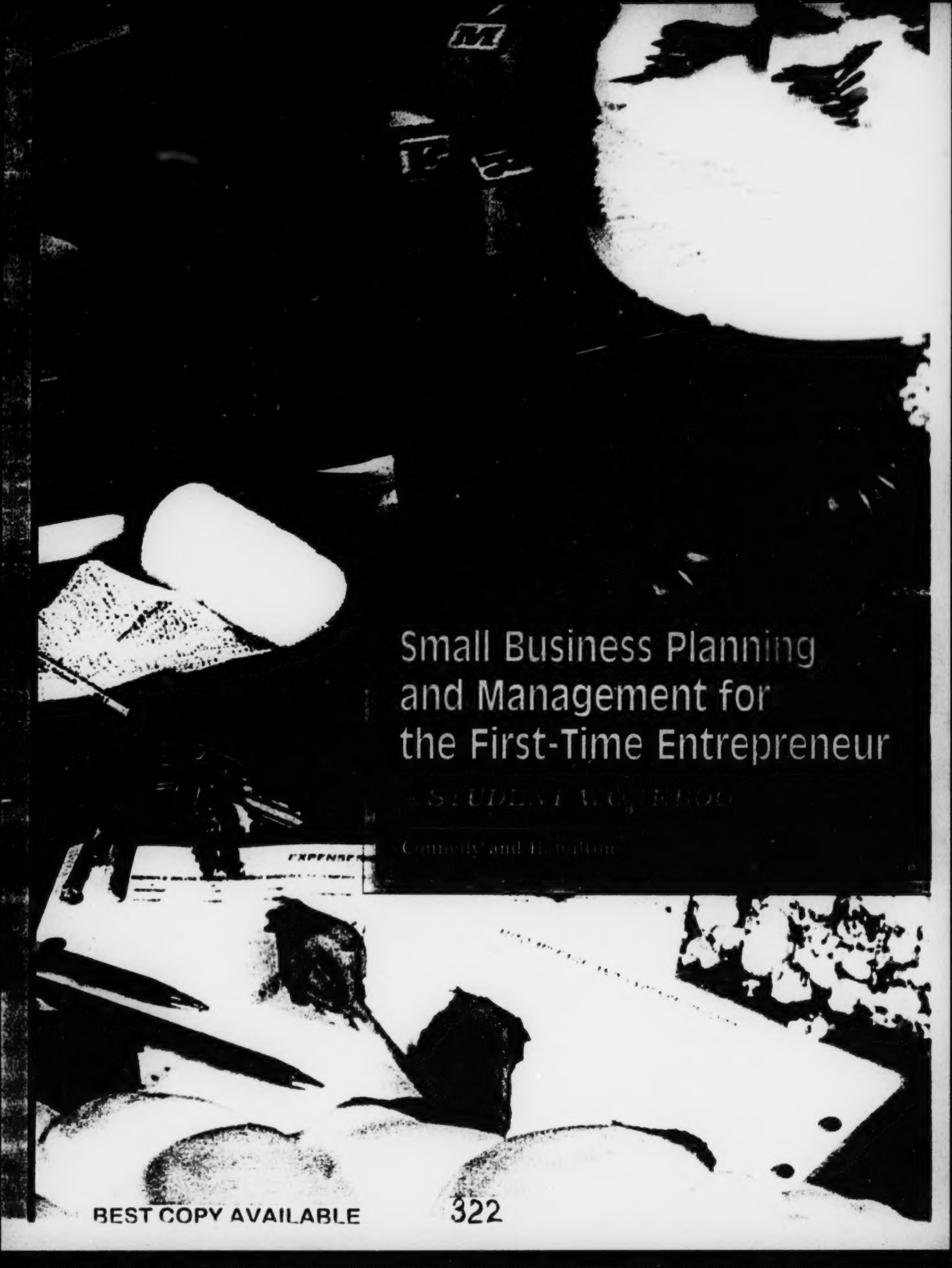
1. Only stock value is at risk.
2. Income is taxed to the corporation.
3. Dividends to each individual are taxed.

BUSINESS OPERATIONS

1. Uniform commercial code rules business-to-business transactions.
2. Consumer protection laws govern sales.
3. Must meet local, state, and national regulations.
4. Must file annual reports.
5. Annual meeting may ratify decisions.

LIABILITY

- Shareholders are sheltered beyond stock share value.



Small Business Planning and Management for the First-Time Entrepreneur

— STUDENT WORKBOOK

Connelly and Hamilton

BEST COPY AVAILABLE

Small Business Planning and Management for the First-Time Entrepreneur

– STUDENT WORKBOOK –

---

by

Donald F. Connelly, Instructor
Indiana Vocational Technical College
B.S. and postgraduate work, Purdue University

William H. Hamilton, Professor Emeritus
Agricultural Education, Purdue University
B.S. and M.S., Iowa State University
Ph.D., Cornell University

Robert. D. Sommers, Assistant Director
Division of Vocational and Adult Education
Agricultural Education Service
Ohio Department of Education

William D. Waidelich, Director
Ohio Agricultural Education
Curriculum Materials Service
The Ohio State University

Copyright © 1996

Ohio Agricultural Education Curriculum Materials Service
The Ohio State University

All rights reserved

ISBN 1-56502-012X

OHIO AGRICULTURAL EDUCATION CURRICULUM MATERIALS SERVICE
The Ohio State University
254 Agricultural Administration Building
2120 Fyffe Road
Columbus, Ohio 43210-1067

Telephone: (614) 292-4848
FAX: (800) 292-4919 (24 hr)

1996

The Ohio Agricultural Education Curriculum Materials Service, as a part of The Ohio State University, is an equal opportunity employer and does not discriminate against any individual for reasons of race, color, creed, religion, national origin, sex, or handicap. All instructional materials are available to all potential clientele on a non-discriminatory basis without regard to race, color, creed, religion, national origin, sex, or handicap.

CONTENTS

PART I – LOOKING AT ENTREPRENEURSHIP

CHAPTER 1 – Start Where You Are 3
CHAPTER 2 – The Idea of Entrepreneurship 23

PART II – PLANNING FOR ENTREPRENEURSHIP

CHAPTER 3 – The Idea of Goal Setting 37
CHAPTER 4 – Considering the Alternatives 41
CHAPTER 5 – Reviewing the Start-up Plans of Others 51
CHAPTER 6 – Solving the Location Puzzle 55

PART III – MARKETING YOUR PRODUCT OR SERVICE

CHAPTER 7 – Becoming a Competitor 59
CHAPTER 8 – Studying the Market Place 63
CHAPTER 9 – Pursuing Positive Publicity 67
CHAPTER 10 – Advertising and Promotion 69
CHAPTER 11 – Using Trade Shows and Fairs 75

PART IV – FINANCIAL MANAGEMENT

CHAPTER 12 – Setting Prices 79
CHAPTER 13 – Keeping Score 87
CHAPTER 14 – Interpreting the Scorecard 95
CHAPTER 15 – The Question of Credit 99
CHAPTER 16 – Managing Cash Flow 103
CHAPTER 17 – Business Taxes 109

PART V – MANAGING SMALL BUSINESS

CHAPTER 18 – Delegating Details 115
CHAPTER 19 – What Risks Are There? 121
CHAPTER 20 – Managing Business Expansion 125
CHAPTER 21 – Legal Concerns for Your Business 129

ADDENDUM A

Problem-Solving Aid 1 133
Problem-Solving Aid 2 137

ADDENDUM B

Basic Outline for a Business Plan 147

ADDENDUM C

Insurance Worksheet 151

ACKNOWLEDGMENTS

About the Participating Authors

Donald L. Buchman, DLB Associates. Consultants to small business owners and managers, West Lafayette, IN.

Leonora C. Byrd, C.P.A., Pittman, O'Daniel, & Co., P.C. Certified public accountants for small businesses, Grapevine, TX.

Dr. Frederick B. Muehlhausen, Associate Professor of Technology, Purdue University, West Lafayette, IN. Professor of building construction, cost accounting, and material handling.

James R. Schrier, Law Firm of Reiling, Teder, Withered, & Rush, Lafayette, IN. Legal services for business start-ups and small business owners.

Janice Fleenor Smith, AfterImage former marketing and communications consultant and Western School patron, Russiaville, IN. Janice and her husband relocated to Ocala, FL.

Other Acknowledgments

David R. Livers, C.P.C.U., Divisional Claims Superintendent, State Farm Fire and Casualty Insurance Cos., West Lafayette, IN. Your insight on the business insurance chapter was very appreciated.

Charles Wolf, Principal and J. O. Smith, Western School Corporation Superintendent, Russiaville, IN. Thank you for the opportunity to be innovative in the classroom and your permission to offer entrepreneurship education evening classes to Western patrons.

Western School patrons who participated in the first semester course. Your ideas helped formulate the Table of Contents for *Small Business Planning and Management for the First-Time Entrepreneur.*

To Don's students at Ivy Tech State College who paid their hard-earned money to enroll in a course on "How Do I Start My Own Business?" Interacting with highly motivated, would-be entrepreneurs was an enjoyable experience. Field testing researched materials, concepts, and similar items was invaluable to the final manuscript. Your candid evaluations improved the final manuscript for more new first-time entrepreneurs.

To Christine M. Ramsey, Margins Unlimited, Buck Creek, IN. Thank you for the professional word processing services you provided during the development of the workbook manuscript. SUPERB job!

We saved the best for last! Bill and Don thank their wives, Barbara and Janet – respectively, for their understanding and patience.

Cover design and manuscript editing and layout by Jacqueline A. Stuts, Curriculum Materials Service.

PART I

CORNER
BAKERY

Looking at Entrepreneurship

LECTURE NOTES

Start Where You Are

PRACTICE EXERCISES

1. What are Beth's three business resources?
   (Insert the inputs and returns for Beth's business in the following diagram.)

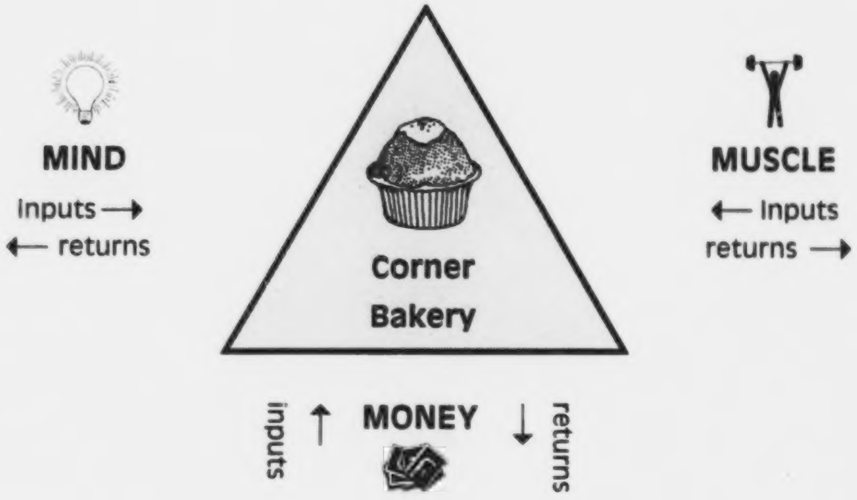

MIND
Inputs →
← returns
Corner
Bakery
MUSCLE
← Inputs
returns →
inputs ↑
MONEY
↓ returns

Figure 1-1 The entrepreneurial resources for the Corner Bakery

2. Complete your personal financial statement on pages 4 and 5.

3. What is the basic accounting equation?

   ____

   ____

4. The balance sheet is ______________________________ of business entity.

My Personal Financial Statement

Date ______________________ 19 _______

Name and Address ____

____

____

This is a true, accurate, and complete statement of my financial condition as of the above date.

____

Signature

MY BALANCE STATEMENT AS OF ____________ (date)

Assets (What I Own) *(Itemize in lists on back of page)*		**Liabilities (What I Owe)** *(Itemize in lists on back of page)*	
1. Cash, checking, savings (list A)	$ ________	11. Accounts payable	$ ________
2. Government securities, stocks, bonds, etc. (list B)	________	12. Notes to financial institutions (list F)	________
3. Life insurance (cash value) (list C)	________	13. Notes to others (list G)	________
4. Accounts and notes receivable	________	14. Real estate mortgage loans (list H)	________
5. Salable inventory	________	15. Interest and taxes due	________
6. Real property (list D)	________	16. Other debts	________
7. Machinery and equipment	________	**TOTAL LIABILITIES**	$ ________
8. Furniture and fixtures	________	17. **OWNER'S EQUITY** (total assets less total liabilities)	$ ________
9. Motor vehicles	________		
10. Other property (list E)	________		
TOTAL ASSETS	$ ________	**TOTAL LIABILITIES AND EQUITY**	$ ________

Use appraised or estimated fair market values and note all assets which secure debts.

MY INCOME STATEMENT FOR THE PERIOD ___ TO ___

Statement of Income	**Prior Year**	**Current Year**
Net income from my proprietorship business	$	$
Salaries, wages, etc. from employment	$	$
Income from dividends and interest		
Net income from rent and other investments		
TOTAL INCOME	$	$

Figure 1-2 My personal financial statement *(continued on next page)*

Supporting Lists

(Total in each of the lists should agree with appropriate items on the financial statement.)

LIST A – Checking and Savings Accounts and Certificates of Deposit

Name of Depository	In Whose Name	Amount
	TOTAL	$

LIST B – Securities

Description	Marketability	Number of Shares or Principal	Registered in Name of	Current Value
			TOTAL	$

LIST C – Life Insurance

Company	Insured	Beneficiary	Face Amount	Loans	Cash Value
				TOTAL	$

LIST D – Real Property

Description (Acreage and Location)	Title in Name of	When Acquired	Cost	Insurance	Current Value
				TOTAL	$

LIST E – Other Property

Description	Value
TOTAL	$

LIST F – Notes to Financial Institutions

Creditor	Security	Date Due or Payment Schedule	Amount
		TOTAL	$

LIST G – Notes to Others

Creditor	Security	Date Due or Payment Schedule	Amount
		TOTAL	$

LIST H – Real Estate Mortgages

Creditor	Property	Date Due	Amount
		TOTAL	$

Use additional sheets, as necessary, to complete or for more lists.

Figure 1-2 My personal financial statement *(continued)*

5. What is the purpose of the balance sheet?

____

____

____

____

6. What is the purpose of the income statement?

____

____

____

____

7. An income statement is also referred to as:

a. ____

b. ____

c. ____

8. The relationship between balance sheets and income statements is shown in the figure below.

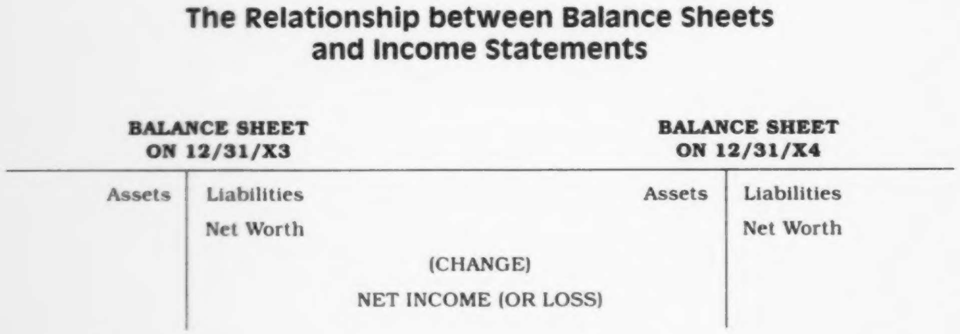

The Relationship between Balance Sheets
and Income Statements
BALANCE SHEET
ON 12/31/X3
BALANCE SHEET
ON 12/31/X4
Assets
Liabilities
Net Worth
Assets
Liabilities
Net Worth
(CHANGE)
NET INCOME (OR LOSS)

Figure 1-3 Relationship between balance sheets and income statements

The purpose of the income statement is to explain the ______________________ during a particular time period.

9. The relationship among balance sheets, income statements, and cash flow statements is shown in figure 1-4.

The Relationship among Balance Sheets, Income Statements, and Cash Flow Statements

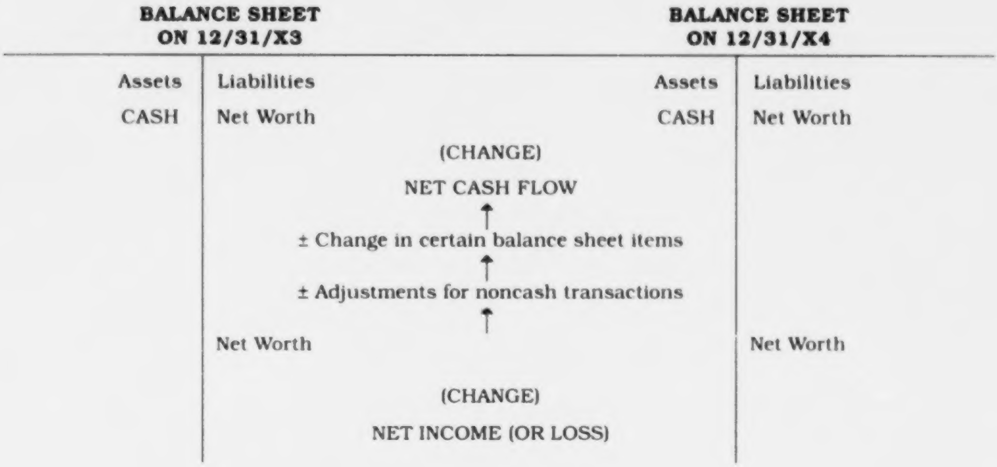

BALANCE SHEET
ON 12/31/X3
BALANCE SHEET
ON 12/31/X4
Assets
Liabilities
Assets
Liabilities
CASH
Net Worth
CASH
Net Worth
(CHANGE)
NET CASH FLOW
± Change in certain balance sheet items
± Adjustments for noncash transactions
Net Worth
Net Worth
(CHANGE)
NET INCOME (OR LOSS)

Figure 1-4 Relationship among balance sheets, income statements, and cash flow statements

The purpose of the cash flow statement is to explain the ______________________________ ____ during a particular time period.

10. The lender requests the financial statements (balance sheets, income statements, and cash flow budgets) from the business owner to measure ___________________________________.

11. What is management?

____

____

____

12. What are the four components of management? (Write a short description of each.)

    a. ____

    ____

    b. ____

    ____

    c. ____

    ____

    d. ____

    ____

13. Business owners can rate their performance using financial ratios from various businesses for a comparison. The ______________________________ company is one that publishes financial ratios.

14. What is the entrepreneurial attitude?

____

____

____

____

____

15. An ______________________________ is a person who takes risks.

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

____ 1. Transactions
____ 2. Low-cost producers
____ 3. Income statement
____ 4. Balance sheet
____ 5. Cash flow
____ 6. Entity
____ 7. Debt financing
____ 8. Competitive advantage
____ 9. Capital
____ 10. Recipes
____ 11. Resources
____ 12. Small Business Development Centers (SBDC)
____ 13. Entrepreneur
____ 14. Equity financing
____ 15. Event
____ 16. Financial statement
____ 17. Chamber of Commerce
____ 18. Management
____ 19. Small Business Administration (SBA)
____ 20. Operations
____ 21. Marketing
____ 22. Personnel
____ 23. Cash flow statement
____ 24. Basic accounting equation
____ 25. Mind resources
____ 26. Business
____ 27. Cost
____ 28. Counseling
____ 29. Money resources
____ 30. Performance
____ 31. Profit
____ 32. Ratio
____ 33. Finance
____ 34. Muscle resources

a. Financial report summarizing a business' financial condition categorized by assets, liabilities, and owner's equity contributed funds at a given point in time
b. Effective function with quality of work done
c. Difference between cash coming into and going out of a business enterprise over a certain time period
d. Non-profit entity designed to promote local community activities and businesses
e. Lower cost, higher quality, or other advantages over the competitors
f. Borrowing money to operate or to purchase equipment
g. Something that exists independently
h. Financial measures used by lenders in decision making
i. Money provided by owners which has not been loaned to the business
j. Assets minus liabilities equals net worth *or* assets equals liabilities plus net worth
k. Collection of financial reports consisting of at least a balance sheet and income statement, but often including cash flow statement and detailed notes and other descriptive comments
l. Financial report showing revenues, costs and expenses, and profit over a period of time
m. One-on-one advice to small business owners
n. Time you can devote to an enterprise
o. Activities to sell the product or service offered
p. Day-to-day activities of the business
q. People who work in the business
r. Finances available for a business venture
s. Mind, muscle, and money one can use in business enterprise
t. Federal agency devoted to the interests of small businesses
u. Public/private partnerships to promote small businesses
v. Financial exchange between entities
w. Financial report showing where cash came from and where cash went over a period of time
x. Change within a business, such as completing goods for sale
y. Entity created, organized, and conducted to make a profit
z. Money you pay for materials, labor hired, money borrowed, and overhead expenses to make the product you sell in your business
aa. Producers who have lower material, labor, and overhead costs of production
bb. Money invested in, or used and earned by a business
cc. Money invested in the business
dd. The money you earn when you sell products for more than their cost to you
ee. One who takes the risks of starting and operating a business
ff. Knowledge you bring to an enterprise
gg. The way resources are used in the business (formulas)
hh. Business decision making

CHECKLIST ✓

The following checklist (pages 10-21) is adapted from *Feasibility Checklist for Starting a Small Business* by Dr. Janelle C. Ashley of Stephen F. Austin State University, and Dr. Danny R. Arnold of Mississippi State University. (*U.S. Small Business Administration Management Aids* 2.026)

Summary

This AID is a checklist for the owner/manager of a small business enterprise or someone considering going into business for the first time. The questions concentrate on areas you must consider to determine if your idea represents a real opportunity and if you realize what you are getting into. Use it to evaluate a new venture proposal or an apparent opportunity in your existing business. Perhaps the most crucial problem you face after expressing an interest in starting a new business or capitalizing on an opportunity in your existing business, is to determine the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates that very few ideas result in successful business ventures, even when introduced by well-established firms. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

This checklist is useful for evaluating a business idea. It was designed to help screen out ideas that are likely to fail **before** you invest extensive time, money, and effort in them.

Preliminary Analysis

A feasibility study involves gathering, analyzing, and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question first involves a preliminary analysis of both personal and project considerations.

GENERAL PERSONAL CONSIDERATIONS

The first seven questions ask you to do a little introspection. For example – are your personality characteristics such that you can both adapt to and enjoy small business ownership/management?

Place a check mark in the appropriate box.

	Yes	**No**
1. Do you like to make your own decisions?	☐	☐
2. Do you enjoy competition?	☐	☐
3. Do you have willpower and self-discipline?	☐	☐
4. Do you plan ahead?	☐	☐
5. Do you get things done on time?	☐	☐
6. Can you take advice from others?	☐	☐
7. Are you adaptable to changing conditions?	☐	☐

The next series of questions stress the physical, emotional, and financial strains of a new business.

		Yes	No
8.	Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and possibly on holidays?	☐	☐
9.	Do you have the physical stamina to handle a business?	☐	☐
10.	Do you have the emotional strength to withstand the strain?	☐	☐
11.	Are you prepared to lower your standard of living for several months or years?	☐	☐
12.	Are you prepared to lose your savings?	☐	☐

SPECIFIC PERSONAL CONSIDERATIONS

1.	Do you know which skills and areas of expertise are critical to the success of your project?	☐	☐
2.	Do you have these skills?	☐	☐
3.	Does your idea effectively utilize your own skills and abilities?	☐	☐
4.	Can you find personnel who have the expertise you lack?	☐	☐
5.	Do you know why you are considering this project?	☐	☐
6.	Will your project effectively meet your career aspirations?	☐	☐

The next three questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance when necessary (e.g., in marketing, legal, and financial matters).

7.	Do you have the ability to perform the feasibility study?	☐	☐
8.	Do you have the time to perform the feasibility study?	☐	☐
9.	Do you have the money to pay to have the feasibility study done?	☐	☐

REQUIREMENTS FOR SUCCESS

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

1.	Does the product/service/business serve a presently unserved need?	☐	☐
2.	Does the product/service/business serve an existing market in which demand exceeds supply?	☐	☐
3.	Can the product/service/business successfully compete with existing competition because of an "advantageous situation" such as better price, location, or similar items?	☐	☐

MAJOR FLAWS

A "yes" response to the following questions indicates that your idea has little chance for success.

	Yes	No
1. Are there any causes - such as restrictions, monopolies, or shortages - which make any of the required factors of production unavailable (e.g., unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)?	☐	☐
2. Is the capital required for entry or the continuation of operations excessive?	☐	☐
3. Is adequate financing difficult to obtain?	☐	☐
4. Are there potential detrimental environmental effects?	☐	☐
5. Are there factors which prevent effective marketing?	☐	☐

DESIRED INCOME

The following questions are reminders that you must seek a return on your investment in your business, as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire?

2. Are you prepared to earn less income than desired in the first one to three years?

3. What is the minimum income you will accept?

4. What financial investment is required for your business?

5. How much could you earn by investing this money?

6. How much could you earn by working for someone else?

7. Add the amounts in questions 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income just to be your own boss with only prospects of a more substantial profit or income in future years?

8. **What is the average return on investment for a business of your type?**

____

____

Preliminary Income Statement

In addition to investment return, you must know the income and expenses for your business. You show profit or loss and derive operating ratios on the income statement. Dollars are the amounts (actual, estimated, or industry average) for income and expense categories. Express operating ratios as percentages of net sales. These ratios show relationships between expenses and net sales.

For instance – $50,000 in net sales equals 100 percent of sales income (revenue). Net profit after taxes equals 3.14 percent of net sales. In a given year, the hypothetical "X" industry average after tax net profit might be 5 percent for firms with $50,000 in net sales. First, estimate or forecast income (revenue) and expense dollars and ratios for your business. Then compare your estimated or actual performance with your industry average. Analyze the differences to see why you are doing better or worse than the competition, or why your venture does or doesn't look as if it will float.

These basic financial statistics are generally available for most businesses from trade and industry associations, government agencies, universities, and private companies and banks (e.g., Dun & Bradstreet, Robert Morris Associates, Accounting Corporation of America, National Cash Register Company, Bank of America, Federal Trade Commission, and Securities and Exchange Commission).

Forecast your own income statement. Do not be influenced by industry figures. Your estimates must be as accurate as possible or you will create a false impression.

1. What is the normal markup in this line of business; i.e., the dollar difference between the cost of goods sold and sales expressed as a percentage of sales?

____

2. What is the average cost of goods sold as a percentage of sales?

____

3. What is the average inventory turnover; i.e., the number of times the average inventory is sold each year?

____

4. What is the average gross profit as a percentage of sales?

____

5. What are the average expenses as a percentage of sales?

6. What is the average net profit as a percentage of sales?

7. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.

8. From an objective, practical standpoint, is this level of sales, expenses, and profit attainable?

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales. After answering the following questions you will be in a better position to answer question eight above.

POPULATION

1. Define the geographical areas from which you can realistically expect to draw customers.

2. What are the populations of these areas?

3. What do you know about the population growth trends in these areas?

4. What is the average family size?

5. What is the age distribution?

6. What is the per capita income?

7. What are consumers' attitudes toward a business like yours?

8. What do you know about consumer shopping and spending patterns regarding your type of business?

9. Is the price of your product/service especially important to your target market?

10. Can you appeal to the entire market?

11. If you appeal to only a market segment, is it large enough to be profitable?

COMPETITION

1. Who are your major competitors?

2. What are the major strengths of each competitor?

3. What are the major weaknesses of each competitor?

4. Are you familiar with the following factors concerning your competitors?

   a. Price structure

   b. Product lines (quality, breadth, width)

   c. Location

   d. Promotional activities

   e. Supply sources

   f. Image from a consumer's viewpoint

5. Do you know of any new competitors?

6. Do you know of any competitor's plans for expansion?

7. Have any firms of your type gone out of business lately?

If so, why?

8. Do you know the sales and market share of each competitor?

9. Do you know whether the sales and market share of each competitor are increasing, decreasing, or stable?

10. Do you know the profit levels of each competitor?

11. Are your competitors' profits increasing, decreasing, or stable?

12. Can you compete with your competition?

SALES

1. What is the total sales volume in your market area?

2. How accurate is your forecast of total sales?

3. Did you base your forecast on concrete data?

4. Is the estimated sales figure normal for your market area?

5. Are the sales per square foot for your competitors above the normal average?

6. Are there conditions or trends that could change your forecast of total sales?

7. Do you expect to carry items in inventory from season to season, or do you plan to mark down products occasionally to eliminate inventories?

   If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (Your gross profit margin may be too low.)

8. **How do you plan to advertise and promote your product/service/business?**

9. Forecast the share of the total market that you can realistically expect – as a dollar amount and as a percentage of your market.

10. Are you sure that you can create enough competitive advantages to achieve the market share in your forecast of the previous questions?

11. Is your forecast of dollar sales greater than the sales amount needed to guarantee your desired or minimum income?

12. Have you been optimistic or pessimistic in your forecast of sales?

13. Do you need to hire an expert to refine the sales forecast?

14. Are you willing to hire an expert to refine the sales forecast?

Supply

		Yes	No
1.	Can you make a list of all necessary inventory and operating supplies?	☐	☐
2.	Do you know the quantity, quality, technical specifications, and price ranges desired?	☐	☐
3.	Do you know the name and location of each potential supply source?	☐	☐
4.	Do you know the price ranges for each product from each supplier?	☐	☐

		Yes	No
5.	Do you know the delivery schedules of each supplier?	☐	☐
6.	Do you know the sales terms of each supplier?	☐	☐
7.	Do you know the credit terms of each supplier?	☐	☐
8.	Do you know the financial condition of each supplier?	☐	☐
9.	Is there a risk of shortage for any critical materials or merchandise?	☐	☐
10.	Are you aware of which supplies have an advantage regarding transportation costs?	☐	☐
11.	Will the available price allow you to achieve an adequate markup?	☐	☐

Expenses

1.	Do you know what your expenses will be for rent, wages, insurance, utilities, advertising, interest, and similar items?	☐	☐
2.	Do you need to know which expenses are direct, indirect, or fixed?	☐	☐
3.	Do you know how much your overhead will be?	☐	☐
4.	Do you know how much your selling expenses will be?	☐	☐

Miscellaneous

1.	Are you aware of the major risks associated with your product? Service? Business?	☐	☐
2.	Can you minimize any of these major risks?	☐	☐
3.	Are there major risks beyond your control?	☐	☐
4.	Can these risks bankrupt you? (fatal flaws)	☐	☐

Venture Feasibility

1.	Are there any major questions remaining about your proposed business venture?	☐	☐
2.	Do the previous questions arise due to a lack of data?	☐	☐
3.	Do the previous questions arise due to a lack of management skills?	☐	☐
4.	Do the previous questions arise because of a "fatal flaw" in your idea?	☐	☐

	Yes	No
5. Can you obtain the additional data needed?	☐	☐
6. Can you obtain the additional managerial skills needed?	☐	☐
7. Are you aware that there is less than a 50-50 chance you will be in business two years from now?	☐	☐

LECTURE NOTES

CHAPTER 2

The Idea of Entrepreneurship

PRACTICE EXERCISES

1. What are five most important advantages of having your own business?

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

   e. ______________________________

2. What are the four most important disadvantages of having your own business?

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

3. What does entrepreneurship require? ______________________________

4. How will you deal with business ethics in your business venture?

   ____

   ____

   ____

   ____

   ____

5. When inventorying your personal resources, which traits can you identify?

6. Which characteristic traits of successful business owners have you have observed? (List five below.)

a. ______

b. ______

c. ______

d. ______

e. ______

7. What are the four legal categories of businesses? (Describe each below.)

a. ______

b. ______

c. ______

d. ______

8. What are the major characteristics of the following organizational styles?

Sole Proprietorship	Partnership	Cooperative	Corporation

9. How will market research help you in your business?

____

____

____

____

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Profit
_____ 2. Business ethics
_____ 3. Resources
_____ 4. Services
_____ 5. Vested
_____ 6. Pink slip
_____ 7. Restructure
_____ 8. Research
_____ 9. Products
_____ 10. Conviction

a. Standard of conduct for operating the business
b. Termination of employment
c. Something grown, processed, or manufactured
d. Income above all expenses
e. Systematic gathering of information for a specific purpose
f. Labor, management, and materials used in production (e.g., mind, muscle, and money)
g. Changing the structure of a business by downsizing and reducing employee numbers
h. Providing the use of something for others
i. Having met the requirements for permanent participation in the plan
j. Being certain of the right

CHECKLIST

Adapted from *Checklist for Profit Watching* by Narendra C. Bhandari and Charles S. McCubbin, Jr., University of Baltimore.
(*U.S. Small Business Administration Management Aids* 1.018)

Summary

Making a profit is the most important – maybe the only – objective of a business. Profit measures success. Defined simply: **Revenue – Expense = Profit**. So, to increase profits you must raise revenues, lower expenses, or both. To make improvements you must know what's really going on financially at all times. You have to watch every financial event without any kind of optimistic filter.

This AID is a series of questions and comments to help you analyze your profits and their sufficiency and trend, to determine the contribution of each of your product lines/services to your profits, and to find out if you have the kind of record keeping system you need. The questions and comments are not definitive presentations on the subjects; instead, they point to areas where further study might be "profitable."

Are You Making a Profit?

ANALYSIS OF REVENUES AND EXPENSES

To determine your profit, first identify all revenues and expenses for the period under study. The following questions will help you.

	Yes	No
1. Have you chosen an appropriate period for profit determination?	☐	☐

For accounting purposes, firms generally use a twelve-month period, such as January 1 to December 31, or July 1 to June 30. The accounting year you select doesn't have to be a calendar year (January to December); a seasonal business, for example, might close its year at the end of the season. The selection depends upon the nature of your business, your personal preference, or possible tax considerations.

	Yes	No
2. Have you determined your total revenues for the accounting period?	☐	☐

To answer this question, consider the following items:

a. How much is gross revenue from sales of your goods or service? **(Gross Sales)**

b. How much is the amount of goods returned by customers for credit? **(Returns and Rejects)**

c. How much is the amount of discounts given to your customers and employees? **(Discount)**

d. How much is net sales from goods and services? **(Net Sales = Gross Sales - [Returns and Rejects + Discounts])**

Yes **No**

e. How much is income from other sources, such as interest on bank deposits, dividends from securities, and rent on property leased to others? (**Non-operating Income**)

f. How much is total revenue?
(**Total Revenue = Net Sales + Non-operating Income**)

3. Do you know how much your total expenses are? ☐ ☐

Expenses are the cost of goods sold and services used in the process of selling goods or services. Some common expenses for all businesses are the following:

a. Cost of goods sold (**Cost of Goods Sold = Beginning Inventory + Purchases - Ending Inventory**)
b. Wages and salaries (Don't forget to include your own – at the same rate you would pay someone else to do your job.)
c. Rent
d. Utilities (electricity, gas, telephone, water, and like items)
e. Supplies (office, cleaning, and like items)
f. Delivery expenses
g. Insurance
h. Advertising and promotional costs
i. Maintenance and upkeep
j. Depreciation (Make sure your depreciation policies are realistic and include all depreciable items.)
k. Taxes and licenses
l. Interest
m. Bad debts
n. Professional assistance (accountant, attorney, and similar people)

There are many types of expenses, but the point is, you must record **all** expenses and deduct them from your revenues before you can determine your profit. Understanding your expenses is the first step toward **controlling expenses and increasing profit**.

FINANCIAL RATIOS

A **financial ratio** is an expression of the relationship between two items selected from the income statement or the balance sheet. Ratio analysis helps you evaluate the weak and strong points in your financial and managerial performance.

Yes **No**

1. Do you know your **current ratio**? ☐ ☐

The current ratio (current assets divided by current debts) is a measure of the cash or near cash position (liquidity) of the firm. It tells you if you have enough cash to pay your firm's current creditors. The higher the ratio, the more liquid the firm's position – hence, the higher the creditability of the firm. Cash, receivables, marketable securities, and inventory are current assets. Naturally, you need to be realistic in valuing receivables and inventory for a true picture of your liquidity, since some debts may be uncollectable and some stock obsolete. Current liabilities are those which must be paid in one year.

Yes **No**

2. Do you know your **quick ratio**? ☐ ☐

   Quick assets are current assets minus inventory. Determine the quick ratio (or acid-test ratio) by dividing quick assets by current liabilities. Its purpose is to test the firm's ability to meet its current obligations. This test doesn't include inventory which makes it a stiffer test of the company's liquidity. It tells you if the business could meet its current obligations with quickly convertible assets if sales revenues suddenly cease.

3. Do you know your **total debt to net worth ratio**? ☐ ☐

   Determine this ratio by dividing total debt by net worth and multiplying the result by 100. It is a measure of how the company can meet all its obligations from equity. The lower the ratio, the higher the proportion of equity regarding debt, and the better the firm's credit rating is.

4. Do you know your **average collection period**? ☐ ☐

   Determine this ratio by dividing accounts receivable by daily credit sales. (Daily credit sales = annual credit sales divided by 360.) This ratio tells you the time it takes the firm to get its cash after making a sale on credit. The shorter this period, the quicker the cash in-flow is. A longer than normal period may mean overdue and uncollectable bills. If you extend credit for a specific period (e.g., 30 days), this ratio should be very close to the same number of days. If it's much longer than the established period, you may need to alter your credit policies. It's wise to develop an aging schedule to gauge the trend of collections and identify slow payers. Slow collections (without adequate financing charges) hurt your profit, since you could be doing something more useful with your money, such as taking advantage of discounts on your own payables.

5. Do you know your **net sales to total assets ratio**? ☐ ☐

   Determine this ratio by dividing net sales by total assets. It measures the efficiency with which you are using your assets. A higher than normal ratio indicates that the firm is able to generate sales from its assets faster (and better) than the average concern.

6. Do you know your **operating profit to net sales ratio**? ☐ ☐

   Determine this ratio by dividing operating profit by net sales and multiplying the result by 100. It is most often used to determine the profit position relative to sales. A higher than normal ratio indicates that your sales are good, your expenses are low, or both. Do not include interest income and interest expense when calculating this ratio.

	Yes	No
7. Do you know your **net profit to total assets ratio**?	☐	☐

Determine this ratio by dividing net profit by total assets and multiplying the result by 100. This is often called "return on investment" or ROI. It focuses on the profitability of the overall operation of the firm. Thus, it allows management to measure the effects of its policies on the firm's profitability. The ROI is the most important measure of a firm's financial position. You might say it's the "bottom line" for the bottom line.

	Yes	No
8. Do you know your **net profit to net worth ratio**?	☐	☐

Determine this ratio by dividing net profit by net worth and multiplying the result by 100. It provides information on the productivity of the resources the owners have committed to the firm's operations.

Compute all ratios measuring profitability either before or after taxes, depending on the purpose of the computations. But remember, ratios have limitations. Since the information used to derive ratios is based on accounting rules and personal judgments, as well as facts, the ratios cannot be considered absolute indicators of a firm's financial position. Ratios are only one means of assessing the firm's performance, so consider them in perspective with many other measures. Use them only as a point of departure for further analysis – not as an end in themselves.

PROFIT SUFFICIENCY

The following questions are designed to help you measure the adequacy of the profit your firm is making. Making a profit is only the first step; making enough profit to survive and grow is really what business is all about.

		Yes	No
1.	Have you compared your profit with your profit goals?	☐	☐
2.	Is it possible your goals are too high or too low?	☐	☐
3.	Have you compared your present profits (absolute and ratios) with the profits made in the last one to three years?	☐	☐
4.	Have you compared your profits (absolute and ratios) with profits made by similar firms in your line?	☐	☐

A number of organizations publish financial ratios for various businesses (e.g., Dun & Bradstreet, Robert Morris Associates, the Accounting Corporation of America, NCR Corporation, and the Bank of America). Your own trade association may also publish such studies. Remember, these published ratios are only averages; you want to be better than average.

PROFIT TREND

Yes No

1. Have you analyzed the direction your profits are taking? ☐ ☐

   The preceding analyses, with all their merits, report on a firm only at one time in its past. It is not possible to use these isolated moments to indicate the trend of your firm's performance. To do a trend analysis, compute performance indicators (absolute amounts or ratios) for several time periods (e.g., annually for several years). Then place the results side by side in columns for easy comparison. This way you can evaluate your performance, see the direction it's taking, and make initial forecasts of where it will go.

2. Does your firm sell more than one major product line or provide several distinct services? ☐ ☐

   If it does, make a separate profit and ratio analysis to show the following:

   a. Relative contribution by each product line or service
   b. Relative burden of expense by each product line or service
   c. Which items are most profitable, which are less profitable, and which are losing money
   d. Which are moving slowly and which are moving quickly

PROFIT MIX

The profit and ratio analyses of each major item help you discover the strong and weak areas of your operations. They can also help you make profit-increasing decisions to drop a product line or service, or to place particular emphasis on one or another.

Records

Good records are essential. Without them a firm doesn't know where it's been, where it is, or where it's heading. Keeping records that are accurate, up-to-date, and easy to use is one of the most important functions of the owner/manager, the staff, and the outside professional counselors (e.g., lawyer, accountant, banker, or similar persons).

BASIC RECORDS

Yes No

1. Do you have a general journal and/or special journals, such as one for cash receipts and disbursements? ☐ ☐

   A general journal is the basic record of the firm. Every monetary event in the life of the firm is entered in the general journal or one of the special journals.

	Yes	No
2. Do you prepare a sales report or analysis?	☐	☐
a. Do you have sales goals by product, department, and accounting period (month, quarter, year)?		
b. Are your goals reasonable?		
c. Are you meeting your goals?		
If you aren't meeting your goals, list the suspected reasons for this on a sheet of paper. Such a study might include areas such as general business climate, competition, pricing, advertising, sales promotion, credit policies, and the like. After you've identified the apparent causes, you can take steps to increase sales (and profits).		

BUYING AND INVENTORY SYSTEMS

	Yes	No
1. Do you have buying and inventory systems? These systems are two critical areas of a firm's operation and can affect profitability.	☐	☐
2. Do you keep records on the quality, service, price, and promptness of delivery from your supply sources?	☐	☐
3. Have you analyzed the advantages and disadvantages of buying from the following:		
a. Several suppliers?	☐	☐
b. A minimum number of suppliers?	☐	☐
4. Have you analyzed the advantages and disadvantages of buying through cooperatives or other similar systems?	☐	☐
5. Do you know the answers to the following questions?		
a. How long does it usually take to receive each order?	☐	☐
b. How much inventory cushion (safety stock) must you have to maintain normal sales while you wait for an order to arrive?	☐	☐
6. Have you ever suffered because an item was out of stock?	☐	☐
7. Do you know the optimum order quantity for each item you need?	☐	☐
8. Do you (or can you) take advantage of quantity discounts for large single purchases?	☐	☐
9. Do you know your costs of ordering and carrying inventory?	☐	☐
The more frequently you buy, the higher your average ordering costs are. This is due to the smaller size of each order and the costs involved in placing the order (e.g., clerical, postage, telephone, and the like). However, your average carrying costs are lower (e.g., storage, loss due to theft, obsolescence, and the like).		

On the other hand, the less frequently you buy, the lower your average ordering costs are due to the larger size of each order. However, your carrying costs are higher.

You must find a balance so you can achieve the minimum overall cost for ordering and carrying inventory.

Yes **No**

10. Do you keep inventory records for each item? ☐ ☐

Keep these records current by making individual entries whenever items are added to or removed from inventory. Use a database system to list for each item the quantity in stock, quantity on order, date of order, whether it is a slow or fast seller, and valuations (important for taxes and your own analyses).

OTHER FINANCIAL RECORDS

1. Do you have an accounts payable ledger? ☐ ☐

This ledger shows what, whom, and why you owe. Such records help you make your payments on time. Any expense not paid on time could adversely affect your credit, but what is more important, such records help you take advantage of discounts that can boost your profits.

2. Do you have an accounts receivable ledger? ☐ ☐

This ledger shows who owes money to your firm. It shows how much is owed, how long it has been outstanding, and why the money is owed. Overdue accounts could indicate that your credit-granting policy needs to be reviewed. Also, you may not be getting the cash into the firm quickly enough to pay your own bills at the optimum time.

3. Do you have a cash receipts journal? ☐ ☐

This journal records the cash received by source, day, and amount.

4. Do you have a cash payments journal? ☐ ☐

This journal is similar to the cash receipts journal, but shows cash paid out instead of cash received. If convenient, combine the two cash journals.

5. Do you prepare an income statement (profit and loss or P & L) and a balance sheet? ☐ ☐

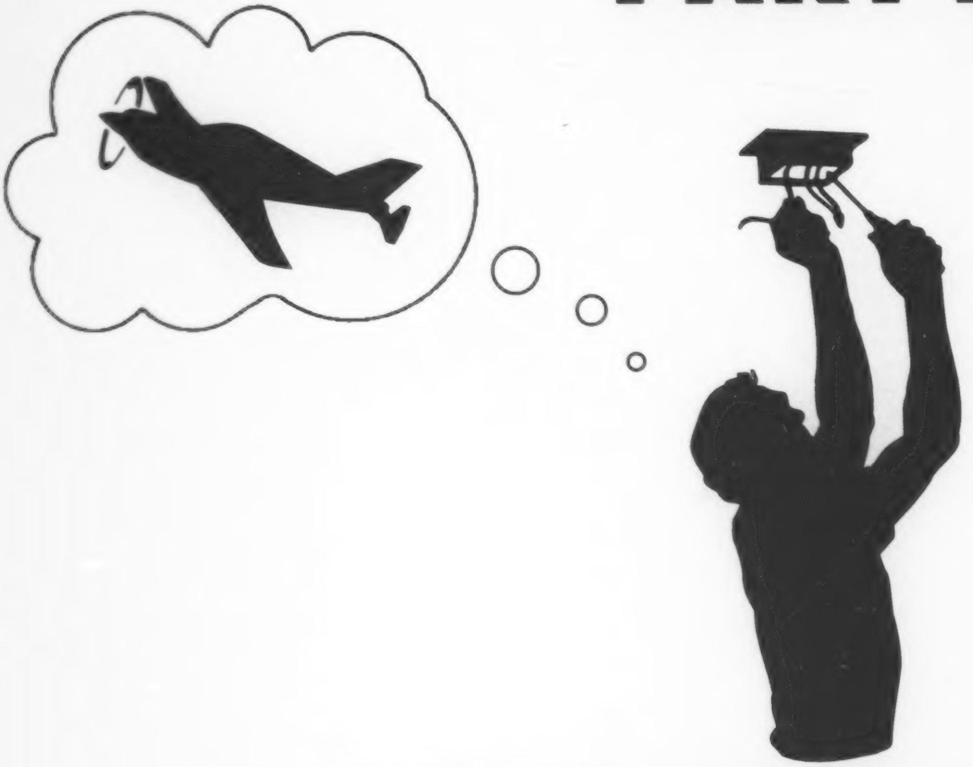
These statements are essential. They are about the condition of your firm at a specific time. These records show the income, expenses, assets, and liabilities of the firm.

	Yes	No
6. Do you prepare a cash flow budget?	☐	☐

You can think of a budget as a "record in advance" projecting future inflows and outflows for your business. In general, prepare a budget for a single year, corresponding with the accounting year. Then divide it into quarterly and monthly projections.

There are different kinds of budgets: cash, production, sales, and the like. A cash budget, for example, shows the estimate of sales and expenses for a particular period of time. The cash budget forces the firm to think ahead by estimating its income and expenses. After making reasonable projections for every important product line or department, set targets for employees to meet for sales and expenses. You must plan to assure a profit, and you must prepare a budget to plan.

PART II



Planning for Entrepreneurship

LECTURE NOTES

CHAPTER 3

The Idea of Goal Setting

PRACTICE EXERCISES

1. What is motivation?

____

____

2. What are six motivational factors which influence human behavior?
   a. ____
   b. ____
   c. ____
   d. ____
   e. ____
   f. ____

3. What motivates you to take the risks necessary to start your business?

____

____

4. What is goal setting?

____

____

5. Goal setting is classified by what three types?
   a. ____
   b. ____
   c. ____

6. **What are six steps which will organize your goal-setting skills?**

a. ____________________

b. ____________________

c. ____________________

d. ____________________

e. ____________________

f. ____________________

7. What are three reasons individuals do not set goals?

a. ____________________

____

b. ____________________

____

c. ____________________

____

8. What must you do to develop new goal-setting habits?

a. ____________________

____

b. ____________________

____

c. ____________________

____

9. What must your personal/business goals be in order to achieve success?

a. ____________________

b. ____________________

c. ____________________

10. What are some characteristics of a procrastinator?

a. ____________________

b. ____________________

c. ____________________

11. What are three ways to "declare war" on procrastination?

a. ______________________________

b. ______________________________

c. ______________________________

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Criteria
_____ 2. Goal
_____ 3. Motivation
_____ 4. Immediate goal
_____ 5. Attainable
_____ 6. "Doers"
_____ 7. Expectations
_____ 8. Long-term goal
_____ 9. Challenging
_____ 10. "Dreamers"
_____ 11. Short-term goal
_____ 12. Procrastination
_____ 13. Articulate
_____ 14. Consumption
_____ 15. Self-esteem

a. Can be achieved
b. Requires special effort
c. Measure of value
d. Able to speak effectively
e. People who have big ideas but never do them
f. Anticipated results
g. To use up
h. Something to achieve this year
i. Something to achieve in a lifetime
j. Something physical, financial, or emotional that causes us to act
k. Self-confidence
l. Something to achieve in the next one to five years
m. People who accomplish things
n. Things we strive to achieve
o. Putting off action

CHAPTER 4

Considering the Alternatives

PRACTICE EXERCISES

1. What are the advantages and disadvantages of purchasing an established business?

ADVANTAGES	DISADVANTAGES

2. What are the advantages and disadvantages of starting a business from scratch?

ADVANTAGES	DISADVANTAGES

3. **What are the advantages of a franchise business?**

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

   e. ______________________________

4. What are the major disadvantages of owning a franchise business?

   a. ______________________________

   b. ______________________________

5. What four questions would you ask an owner who is selling his/her business?

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Franchise
_____ 2. Logo
_____ 3. Market niche
_____ 4. From scratch
_____ 5. Complemented
_____ 6. Consignment
_____ 7. Break of the scale
_____ 8. Horticulture

a. Added to, or completed a whole
b. The amounts between five-pound intervals
c. A business that pays a fee for using the parent company's logos, supplies, and management helps
d. Study of the science of growing fruits, flowers, or shrubs
e. A distinctive company symbol or trademark
f. A well-defined segment of a market
g. Supplied with the payment to be made when sold
h. A start from nothing

CHECKLIST

This AID was adapted from *Evaluating Franchise Opportunities (U.S. Small Business Administration Management Aids* 7.007).

Summary

Although the success rate for franchisee-owned businesses is significantly higher than for many other start-up businesses, success is not guaranteed. One of the biggest mistakes you can make is to rush into business. If you shortcut your evaluation of a potential business, you might not consider other franchises which are more suitable for you.

Don't be pressured into a franchise that is not right for you. Although most franchises are managed by reputable individuals, be careful to avoid those who are not. Also, some franchises may be poorly managed and financially weak.

This AID is designed to assist you in investigating your options. It includes questions to help you evaluate the business, franchiser, franchise package, and yourself.

WHAT IS FRANCHISING?

A franchise is a legal and commercial relationship between the owner of a trademark, service mark, trade name, or advertising symbol and an individual or group seeking the right to use that identification in a business. The franchise governs the method for conducting business between the two parties. Although forms of franchising have existed since the Civil War, enormous growth in this area has occurred more recently. By the end of 1993, 542,000 establishments in 50 industries will achieve gross sales of over half a trillion dollars and employ 5.6 million full- and part-time workers. Industries that rely on franchised business to distribute their products and services touch every aspect of life from automobile sales and real estate, to fast foods and tax preparation.

In its simplest form, a franchiser owns the right to a name or trademark and sells that right to a franchisee. This is known as product/trade name franchising. In its more complex form – business format franchising – a broader, ongoing relationship exists between the two parties. Business format franchises often provide a full range of services including site selection, training, product supply, marketing plans, and even financing. Generally, a franchisee sells goods or services supplied by the franchiser or sells goods or services which meet the franchiser's quality standards.

BENEFITS OF A FRANCHISE

There are a number of aspects to franchising that appeal to prospective business owners. For example, easy access to an established product, as well as a proven marketing method, reduces the many risks of opening a business. In fact, Small Business Administration and Department of Commerce statistics show a significantly lower failure rate for franchisee-owned businesses than for other business start-ups. The franchisee purchases, along with a trademark, the experience and expertise of the franchiser's organization. However, a franchise does not ensure easy success. If you are not prepared for the total commitment of time, energy, and financial resources that any business requires, STOP HERE.

Investigate Your Options

As in all major business decisions, nothing can substitute for thorough investigation, planning, and analysis of your options. This AID will help you set up a systematic program to analyze the possibilities and pitfalls of the franchised business you are considering. Use the following questions to guide your research and cover all the bases. Read the full AID before you begin to gather the information you will need.

SOURCES OF INFORMATION

You will need the following sources of information plus experienced professional advice:

1. **Directory of franchisers**, e.g., the *Franchise Opportunities Handbook* (published by the U.S. Department of Commerce and available from The Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402). Others are available at your library.

2. **Disclosure document.** A Federal Trade Commission (FTC) rule requires that franchise and business opportunity sellers provide certain information to help you in your decision. The FTC rule requires the franchiser to provide you a detailed disclosure document at least 10 days before you pay any money or legally commit yourself to a purchase. This document includes 20 important items of information, such as the following:
    a. Names, addresses, and telephone numbers of other purchasers
    b. Seller's fully-audited financial statement
    c. Key executives' backgrounds and experience
    d. Costs required to start and maintain the business
    e. Responsibilities that you and the seller will share when you buy
3. **Current franchisees.** Talk to other owners and ask them about their experiences regarding earnings claims and information in the disclosure document. Be certain that you talk to franchisees and not company-owned outlets.
4. **Other references.** You should get more information and publications from the U.S. Small Business Administration, the Federal Trade Commission, the Better Business Bureau, the local Chamber of Commerce and associations such as the International Franchise Association (1025 Connecticut Avenue, NW, Washington, DC 20036).
5. **Professional advice.** Finally, unless you have considerable business experience and legal training, you need a lawyer, an accountant, and a business advisor to counsel you and review the disclosure document and proposed contract. Remember, the money and time you spend now may save you from a major loss on a bad investment later on.

WHAT IS THE BUSINESS?

Determine whether the business would be a successful venture apart from the benefits offered by a franchise.

1. Is this product or service new or proven?

____

2. Are you strongly motivated to produce this product or provide this service?

____

3. Do you have a solid background in this product or service?

____

4. Does this product or service meet a local demand? Is there a proven market?

____

____

5. What is the reputation of the product or service?

____

6. Are product suppliers available? What are their reputations?

____

____

7. **Who are the competitors?**

8. **If the product requires servicing, who bears the responsibilities covered by warrantees and guarantees – the franchisee or the franchiser? If neither, are service facilities available?**

WHO IS THE FRANCHISER?

Visit at least one of the firm's franchises, observe the operation, and talk to the owner. Determine the reputation, stability, and financial strength of the franchiser. Use the following items as a guide:

1. How long has the franchiser been in the industry?

2. What is the franchiser's current financial condition?

3. Who are the principal officers, owners, and managers? What are their backgrounds?

4. How long has the firm granted franchises?

5. How many franchises are there? How many are in your area?

6. Examine the franchiser's attitude toward you. Is the firm concerned about your qualifications? Are you being rushed to sign the agreement? Does the firm seem interested in a long-term relationship, or will that end when the initial fee is paid?

7. **Compare promises made with the actual documentation. Be certain the sales presentation is realistic and major promises are written into the contract. Are there exaggerated claims and pressure tactics?**

8. Does the franchise offer the return you require? Verify earnings claims and compare them with other business opportunities. Treat your money like any other investment.

9. What is the legal history of the franchiser? Have any of the executives been involved in criminal or civil actions? Are any litigations pending? If so, do these involve restrictions on trade that affect the franchise?

WHAT IS THE FRANCHISE PACKAGE?

Compile your information and resources as you examine the contract. Think carefully about the level of independence you will have as a franchisee. How comprehensive are the operating controls? Be very clear about the full costs of purchasing the franchise. Involve your attorney, accountant, and business advisor as you answer the following questions:

1. What is the initial cost of the franchise? What does this cover? *For example –*
   a. Licensing fee ______
   b. Land purchase or lease ______
   c. Building construction or renovation ______
   d. Equipment ______
   e. Training ______
   f. Starting inventory ______
   g. Promotional fees ______
   h. Use of operations manuals ______

2. What continuing costs are related to the franchiser? *For example –*
   a. Royalties ______
   b. Ongoing training ______
   c. Cooperative advertising fees ______

d. Insurance ______________________________

e. Interest on financing ______________________________

3. Are you required to purchase supplies from the franchiser? Are the prices competitive with other suppliers?

____

____

4. What, if any, restrictions apply to competition with other franchisees?

____

____

____

5. What are the terms covering renewal rights? Reselling the franchise?

____

____

____

____

____

Again, use your professional support people to examine all of these questions. Some of the contract terms may be negotiable. Find out before you sign; otherwise, it may be too late.

Personal Assessment

Finally, an examination of your own skills, abilities, and experience is perhaps your most important step. Determine exactly what you want out of life and what you are willing to sacrifice to achieve your goals. Be honest, rigorous, and specific. Ask yourself the following questions:

1. Am I qualified for this field in the following areas?

   a. Physically ______________________________

   b. Level of experience ______________________________

   c. Amount of education ______________________________

   d. Learning capacity ______________________________

   e. Financially ______________________________

2. How will this decision affect your family and their lifestyle? Do they understand that risks and sacrifices will be necessary? Will they support your efforts?

____

____

____

____

Beginning a franchise business is a major decision that does not ensure easy success. However, an informed commitment of time, energy, and money by you and your family can lead to an exciting and profitable venture.

LECTURE NOTES

CHAPTER 5

Reviewing the Start-up Plans of Others

PRACTICE EXERCISES

1. The business plan is referred to as ______________________________ for the business owner.

2. What are the advantages of reviewing an established business' start-up plans before you write your own plan?
   a. ______________________________
   b. ______________________________
   c. ______________________________
   d. ______________________________

3. Why is equity financing a viable solution to finance a business start-up?

   ____

   ____

   ____

   ____

4. What are two disadvantages of borrowing money from family members?
   a. ______________________________
   b. ______________________________

5. When considering a venture capitalist for funding, what should you anticipate?

   ____

   ____

   ____

   ____

6. What are four features of Beth's Corner Bakery business plan that point toward her potential success?

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

7. What are three features of Beth's Corner Bakery business plan that would cause concern if you were purchasing the bakery?

   a. ______________________________

   b. ______________________________

   c. ______________________________

8. Beth's business plan listed cash flow forecasts calculated with a 20 percent increase and a 20 percent decrease based on the previous owner's sales. How does this budgeting help Beth make business decisions?

   ____

   ____

   ____

   ____

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Business plan
_____ 2. Demographics
_____ 3. Venture capitalist
_____ 4. Balance sheet
_____ 5. Fixed costs
_____ 6. Risk
_____ 7. Variable costs
_____ 8. Value added
_____ 9. Budget
_____ 10. Equity
_____ 11. Marketing plan
_____ 12. SCORE
_____ 13. Foot traffic
_____ 14. Anchor store
_____ 15. Capital equipment list
_____ 16. Owner's equity
_____ 17. Private funds
_____ 18. Risk taker

a. A financial report summarizing a business' financial condition categorized by assets, liabilities, and the owner's equity at a given point in time

b. Careful analysis of anticipated income and expenses

c. Major department store

d. Detailed information about the people in the area

e. Finances obtained from noncommercial sources

f. Costs that do not vary with volume of sales or production

g. Number of people who pass by the location

h. A plan for promoting your product or services

i. One who takes risks, an entrepreneur

j. Service Corp. of Retired Executives dedicated to providing advice to aspiring entrepreneurs

k. Changing a product into another of higher value; e.g., milk into ice cream

l. Record of depreciable equipment

m. Investor who makes a business of funding new businesses

n. A detailed written plan for the operation of a business enterprise

o. Costs that vary with production or sales

p. Value of the owner's share of the business

q. Degree of ownership

r. A chance for profit or loss

CHAPTER 6

Solving the Location Puzzle

PRACTICE EXERCISES

1. Who are two knowledgeable resource persons who can assist you in selecting a suitable location for your business?

   a. ______________________________

   b. ______________________________

2. Where will you obtain data for a potential business location?

3. How will your business depend on anchor stores to increase traffic?

4. What factors influence the costs of leasing real estate for business occupancy?

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

5. What are five concerns you have when selecting a business location?

a. ____________________

b. ____________________

c. ____________________

d. ____________________

e. ____________________

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Zoning laws

_____ 2. Anchor store

_____ 3. Bottom line

_____ 4. Proprietor

_____ 5. Accessible

_____ 6. Traffic counts

_____ 7. Visibility

_____ 8. Related businesses

_____ 9. Destination trips

a. Can be entered and exited readily

b. A major retailer, usually located at the end of a shopping mall

c. Profit

d. Shopping trips to a particular store, such as for groceries

e. Manager or operator

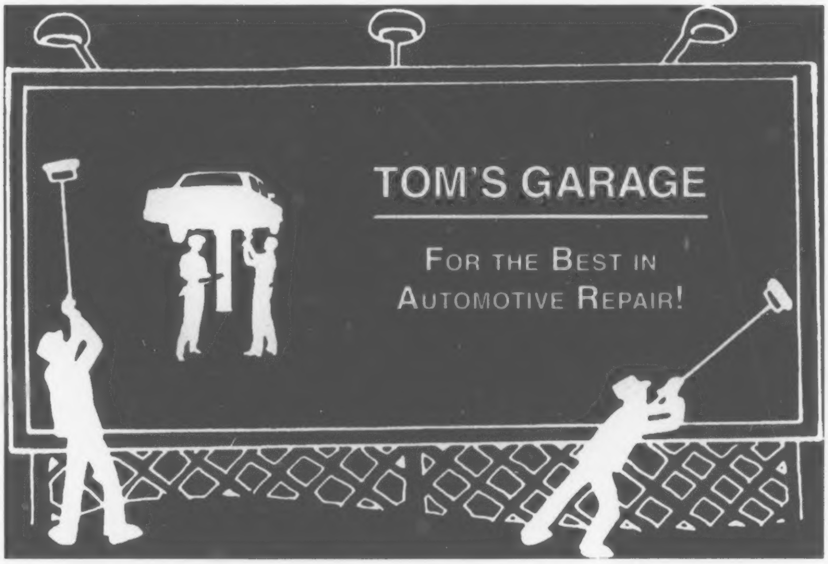
f. Businesses in the same field such as car dealerships and auto parts stores

g. Counts of vehicles past a given point

h. Easily seen or prominent

i. Laws regulating location of certain types of businesses.

PART III


TOM'S GARAGE
FOR THE BEST IN
AUTOMOTIVE REPAIR!

Marketing Your Product or Service

CHAPTER 7

Becoming a Competitor

PRACTICE EXERCISES

1. What strategies will you implement to increase demand for your product or services?

2. What are two competitive advantages you will have?

   a. ______________________________

   b. ______________________________

3. What are the value-added products or services you will offer customers? (Describe them.)

4. How will you effectively lower your costs to compete as a low-cost producer?

5. What is elastic demand vs. inelastic demand?

6. What are some supply shifters that may impact your business success?

7. What are some demand shifters that may impact your business success?

8. What are two sources which will give you information about your competitors?

   a. ______________________________

   b. ______________________________

9. Will you compete based on price, quality, or service? (Circle one)

10. How will your product or service differ from your competitors'?

11. How can you sustain your competitive advantage?

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Competitive advantage
_____ 2. Demand
_____ 3. Inelastic demand
_____ 4. Demand shifters
_____ 5. Elastic demand
_____ 6. Cost competitive
_____ 7. Labor intensive
_____ 8. Low-cost producers
_____ 9. Supply shifters
_____ 10. Added value
_____ 11. Price lining
_____ 12. Supply
_____ 13. Service
_____ 14. Location

a. Anything that permits you to maintain or improve your share of the market, such as location, low cost, better quality, or service
b. A product is changed or improved for resale at a higher price
c. A schedule of the amount of goods or services that customers will buy at a given price
d. Things that change the amount of goods or services that customers will buy at a given price
e. When a change in price makes a big difference in the quantity that customers are willing and able to buy
f. When a change in price makes little or no difference in the quantity that customers are willing and able to buy
g. A product or service that uses much labor and not much money
h. Where a business is physically located
i. Producers whose costs are lower than their competitors
j. Cost of a product is below a competitor's
k. Providing various qualities at different prices
l. Value-added customer aid beyond just supplying goods
m. A schedule of the amount of goods or services that producers are willing and able to supply to customers at a given price
n. Things that change the amount of goods or services offered at a given price.

CHAPTER 8

Studying the Market Place

PRACTICE EXERCISES

1. Describe your market niche.

2. What are your cultural concerns for test marketing new products or services?

3. What is the purpose of market research?

4. What are the strategies you will implement to gain market penetration?

5. What types of market research will you explore?

   a. ______________________________

   b. ______________________________

6. What secondary market research will assist your planning?

   a. ______________________________

   b. ______________________________

   c. ______________________________

7. What is the most effective primary market research to benefit your planning?

   ____

   ____

   ____

8. What is your customer profile?

   ____

   ____

   ____

9. What steps will you use to gather market research?

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

   e. ______________________________

10. What are the strategies you will use for other market research?

    ____

    ____

    ____

    ____

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Market niche
_____ 2. Overhead costs
_____ 3. Primary research
_____ 4. Market research
_____ 5. Test market
_____ 6. Secondary research
_____ 7. Competitor
_____ 8. Business plan
_____ 9. Market penetration
_____ 10. Customer profile
_____ 11. Inferential data
_____ 12. Propagating
_____ 13. *Standard and Poors Directory*

a. A detailed written plan for operating a business venture
b. A business that sells the same or similar products
c. The ability to gain an increasing share of a market
d. Gathering information related to promotion of a given product
e. Fixed costs of doing business such as rent, utilities, or other ongoing costs
f. Growing or reproducing
g. Data gathered from existing data sources
h. Trying out a product on a limited basis to see if it can be profitable
i. A specially defined portion of a market
j. Demographic information about customers
k. Data you gather for yourself
l. A specially defined portion of a market
m. An important business reference

CHAPTER 9

Pursuing Positive Publicity

PRACTICE EXERCISES

1. How will you obtain free publicity?

____

____

____

____

2. What kind of publicity will be most helpful to your business?

____

____

____

____

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____	1. Open house	a. A news story about a particular item or person
_____	2. Feature story	b. By invitation only
_____	3. Publicity	c. Inviting the public to see the business
_____	4. Studio	d. Bringing to the attention of the public
_____	5. Private showing	e. Very limited budget
_____	6. Shoestring	f. Artist's work area

CHAPTER 10

Advertising and Promotion

PRACTICE EXERCISES

1. What cultural considerations will you take into account in your advertising strategies?

2. Which type of media will be most effective for your business? (*Circle one.*)

   Printed materials TV commercials Radio commercials

3. Describe the criteria you will use to measure the effectiveness of your advertising.

4. What are the advantages/disadvantages of each of these types of advertising media as they relate to your business?

TYPE	ADVANTAGES	DISADVANTAGES
Newspaper		
Radio		
Television		
Direct mail		
Yellow Pages		
Catalogs		

5. What are the monthly costs for selected advertising media?

____

____

6. Write a 15- and/or 30-second radio advertisement for your business.
(Use additional paper, if necessary.)

____

____

____

____

____

____

____

____

____

7. **You decide to budget $8,500.00 for advertising for next year. Project the annual cash flow advertising budget. Apply media costs for your geographic area. (Use the chart in Figure 10-1 on page 72.)**

8. What are some characteristics of a promotion which could increase sales for your business?

9. What are some of your competitors' advertising strategies?

10. What do you find appealing about your competitor's' advertising?

11. What percentage of gross sales (or projected) will your business commit to advertising?

12. Develop your business' annual advertising budget. (Use the chart in Figure 10-2 on page 72.)

My Annual Cash Flow Advertising Budget

Media	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Totals for Year
a. Newspaper													
b. Radio													
c. Television													
d. Direct mail													
e. Yellow Pages													
f. Catalogs													

Figure 10-1 Annual cash flow advertising budget

My Preliminary Annual Advertising Budget

Media	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Totals for Year
a. Newspaper													
b. Radio													
c. Television													
d. Direct mail													
e. Yellow Pages													
f. Catalogs													
g. Other													

Figure 10-2 Preliminary annual advertising budget

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Media
_____ 2. Advertising
_____ 3. Criteria
_____ 4. Media kit
_____ 5. Advertising plan
_____ 6. Word of mouth
_____ 7. Special interest
_____ 8. Advertising specialties
_____ 9. Promotion

a. Paid promotion of your product or service
b. An organized plan for promotion
c. "Freebies" or giveaway items to promote your business
d. Specific standards to measure by
e. Newspapers, radio, and television (most common)
f. Materials promoting advertising in that medium
g. Activities and events conducted to feature your product or service
h. A defined group based on some common interest – for example, baseball fans
i. One person telling another

CHAPTER 11

Using Trade Shows and Fairs

PRACTICE EXERCISES

1. Which trade magazines inform you about potential trade shows?

2. Where can you get reliable trade show data?

3. In the space below, sketch the display you plan to develop for a trade show.

4. What is the center of interest in your display? (Describe.)

5. How would you create an eye-catching exhibit for your business?

6. How will you follow up prospects who express interest in your service or product during a trade show?

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Exhibitors

_____ 2. Cost benefit ratio

_____ 3. Center of interest

_____ 4. Trade show

a. The main feature of the exhibit

b. Costs as compared to returns

c. Companies or persons promoting products at a show or fair

d. Marketing aimed at a specific group

PART IV

Financial Management

CHAPTER 12

Setting Prices

PRACTICE EXERCISES

1. What sets the price of your goods or services?

____

____

2. What determines the ultimate prices of goods and services?

____

____

3. Why shouldn't you use your competitor's prices to set your prices?

____

____

____

4. List five competitive advantages as perceived by customers.
    a. ______________________________
    b. ______________________________
    c. ______________________________
    d. ______________________________
    e. ______________________________

5. The ultimate price level is set by the ______________________________.

6. Why do small business owners frequently establish their prices based on those of their competitors?

____

____

7. Your customers will benefit from the competitive advantages of ______________________
and ______________________.

8. A small business manager must be aware of ______________________ when pricing goods and services.

9. A generic definition of cost includes the following three ideas:
a. ______________________
____
b. ______________________
____
c. ______________________
____

10. When pricing goods and services, the business owner divides costs into the two following categories:
a. ______________________
b. ______________________

11. What are two direct cost items for products made at the Corner Bakery?
a. ______________________
b. ______________________

12. As a business owner, you can identify your direct costs to include the following:
a. ______________________
b. ______________________
c. ______________________
d. ______________________
e. ______________________
f. ______________________

13. Why is the cost concept widely misunderstood by entrepreneurs?
____
____
____

14. Operating expenses are also referred to as ______________________________.

15. How do allocated costs differ from direct costs when pricing the goods or service?

16. List four allocated (indirect) costs for a wedding cake made by the Corner Bakery.
a. ______________________________
b. ______________________________
c. ______________________________
d. ______________________________

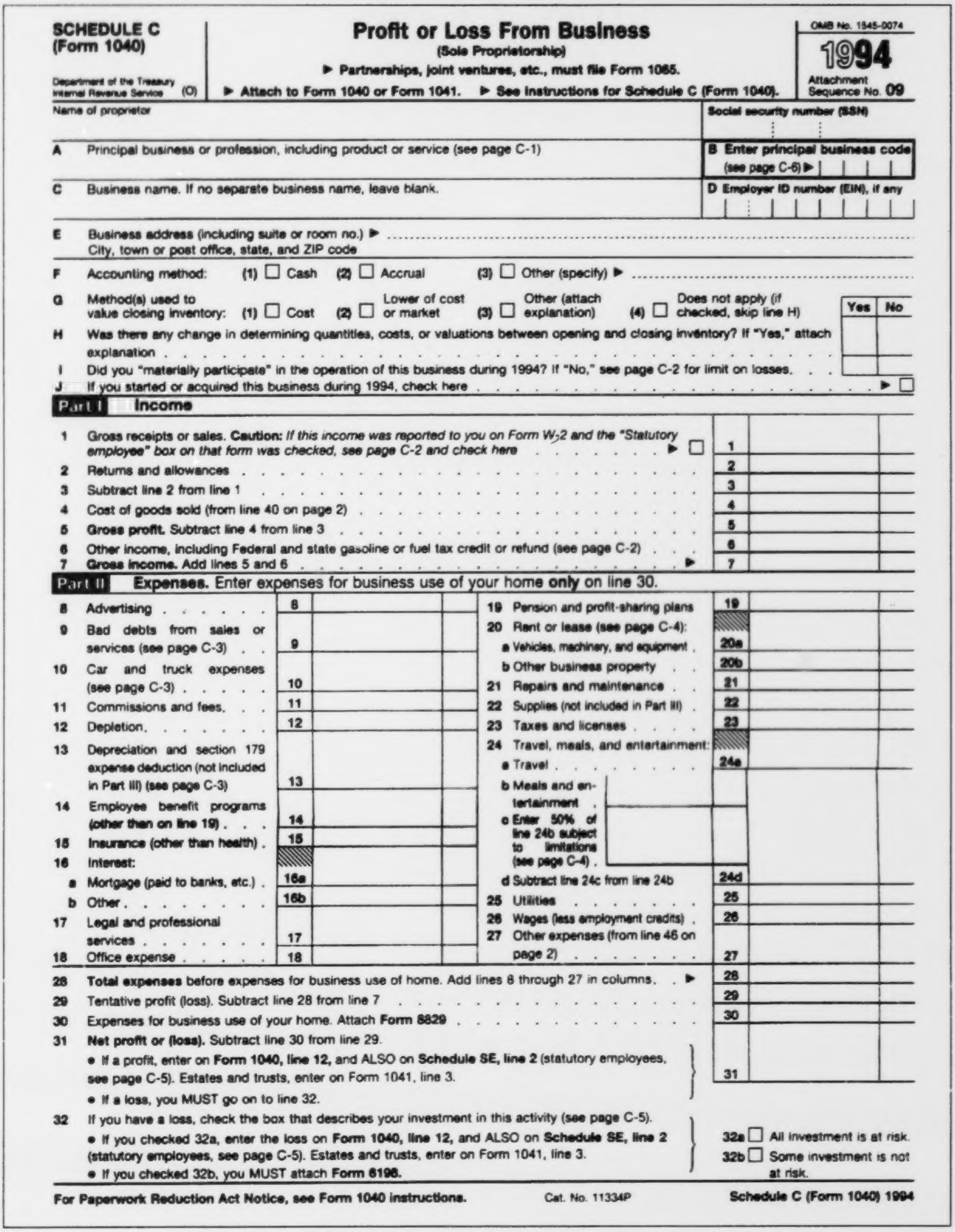
17. As a business owner, some of your indirect (allocated) costs include the following:
Example: Rent
a. ______________________________
b. ______________________________
c. ______________________________
d. ______________________________

18. Enter revenue and expenses for the Corner Bakery on Schedule C, Form 1040 in Figures 12-1 and -2 on pages 82 and 83. (As a sole proprietor, you must complete this form.)

19. Why do equipment depreciation costs differ from other business indirect costs?

20. On a sole proprietor's Schedule C direct costs are included under ____________________.
Indirect costs are included as ____________________.

21. What formula does the small business owner use to calculate profit?



SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (O)

Profit or Loss From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

1994

Attachment Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see page C-1)

B Enter principal business code (see page C-6) ▶

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), if any

E Business address (including suite or room no.) ▶ ....
City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ ....

G Method(s) used to value closing inventory: (1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation) (4) ☐ Does not apply (if checked, skip line H)

		Yes	No
H	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation		
I	Did you "materially participate" in the operation of this business during 1994? If "No," see page C-2 for limit on losses		

J If you started or acquired this business during 1994, check here ▶ ☐

Part I Income

1	**Gross receipts or sales. Caution:** *If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-2 and check here* ▶ ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 40 on page 2)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-2)	6	
7	**Gross income.** Add lines 5 and 6 ▶	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		19	Pension and profit-sharing plans	19	
9	Bad debts from sales or services (see page C-3)	9		20	Rent or lease (see page C-4):		
				a	Vehicles, machinery, and equipment	20a	
10	Car and truck expenses (see page C-3)	10		b	Other business property	20b	
11	Commissions and fees	11		21	Repairs and maintenance	21	
12	Depletion	12		22	Supplies (not included in Part III)	22	
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-3)	13		23	Taxes and licenses	23	
				24	Travel, meals, and entertainment:		
				a	Travel	24a	
14	Employee benefit programs (other than on line 19)	14		b	Meals and entertainment		
15	Insurance (other than health)	15		c	Enter 50% of line 24b subject to limitations (see page C-4)		
16	Interest:						
a	Mortgage (paid to banks, etc.)	16a		d	Subtract line 24c from line 24b	24d	
b	Other	16b		25	Utilities	25	
17	Legal and professional services	17		26	Wages (less employment credits)	26	
18	Office expense	18		27	Other expenses (from line 46 on page 2)	27	

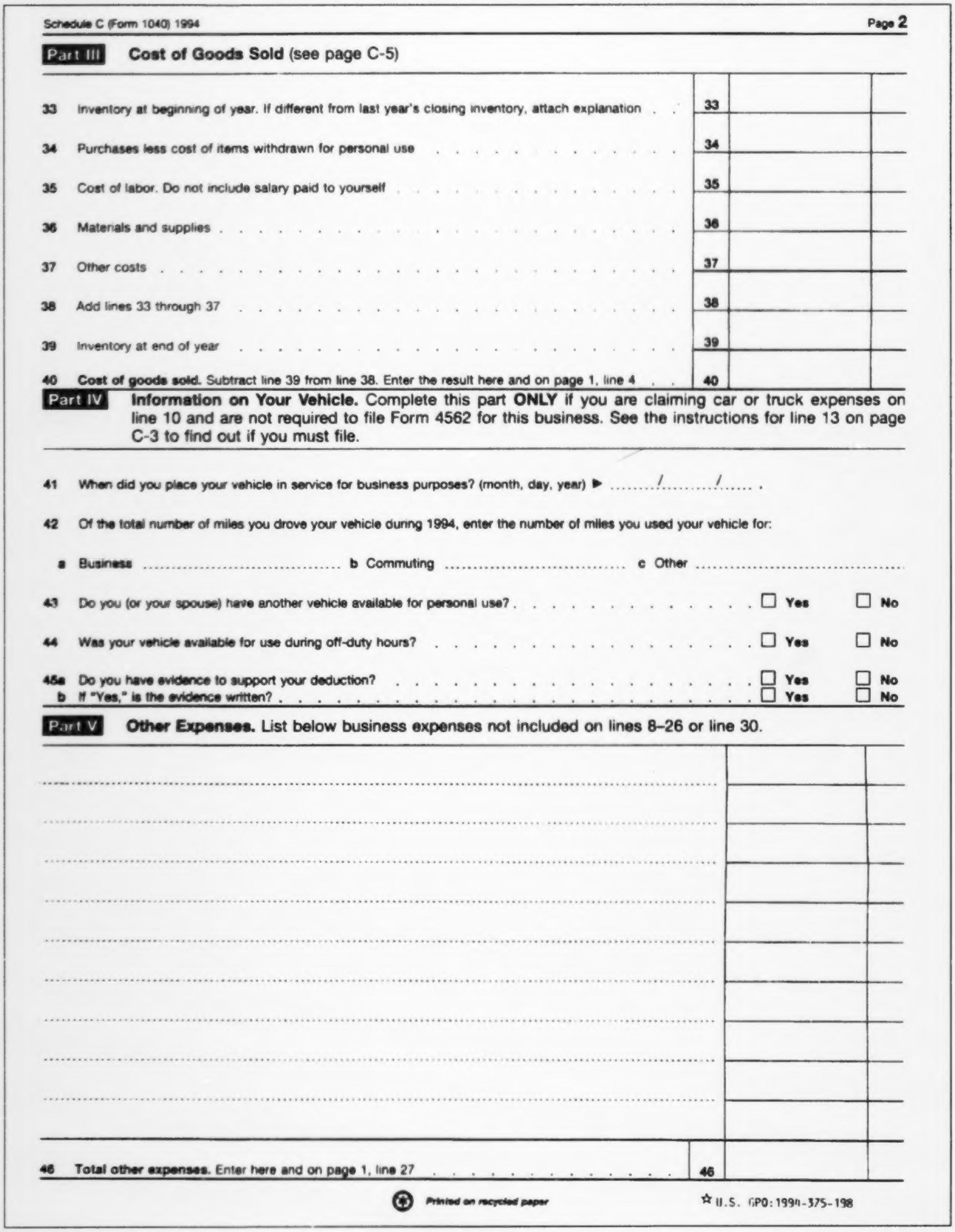
28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns ▶	28	
29	Tentative profit (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Attach **Form 8829**	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3. • If a loss, you MUST go on to line 32.	31	

32 If you have a loss, check the box that describes your investment in this activity (see page C-5).
• If you checked 32a, enter the loss on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3.
• If you checked 32b, you MUST attach **Form 6198.**

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11334P **Schedule C (Form 1040) 1994**

Figure 12-1 Schedule C, Form 1040 (side 1)



Schedule C (Form 1040) 1994 Page **2**

Part III **Cost of Goods Sold** (see page C-5)

33	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	33	
34	Purchases less cost of items withdrawn for personal use	34	
35	Cost of labor. Do not include salary paid to yourself	35	
36	Materials and supplies	36	
37	Other costs	37	
38	Add lines 33 through 37	38	
39	Inventory at end of year	39	
40	**Cost of goods sold.** Subtract line 39 from line 38. Enter the result here and on page 1, line 4	40	

Part IV **Information on Your Vehicle.** Complete this part **ONLY** if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-3 to find out if you must file.

41 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ..../........./......

42 Of the total number of miles you drove your vehicle during 1994, enter the number of miles you used your vehicle for:

a Business .... b Commuting .... c Other ....

43 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

44 Was your vehicle available for use during off-duty hours? ☐ Yes ☐ No

45a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

Part V **Other Expenses.** List below business expenses not included on lines 8–26 or line 30.

46	**Total other expenses.** Enter here and on page 1, line 27	46

Printed on recycled paper

☆ U.S. GPO: 1990-375-198

Figure 12-2 Schedule C, Form 1040 (side 2)

22. Describe the three methods used to measure profit goals.

a. ______________________________

____

b. ______________________________

____

c. ______________________________

____

23. Which method will you use to determine profitability in your business?

____

____

____

24. Describe the pricing method your company will use to calculate the full costs necessary to sell your goods and services.

____

____

____

____

25. Show the relationship of your indirect costs to raw materials, assuming that raw materials are your only direct cost.

$$\text{\% Relationship} = \frac{\text{Indirect Cost}}{\text{Raw Material Cost}} \times 100\%$$

$$= \frac{\$\_\_\_\_\_\_\_\_}{\$\_\_\_\_\_\_\_\_} \times 100\%$$

$$= \_\_\_\_\_\_\_\_ \%$$

26. When calculating your profits, show how you calculate the mark-up rate for profit, assuming that raw materials are your only direct cost.

$$\text{\% Relationship} = \frac{\text{Profit Goal}}{\text{Raw Material Cost}} \times 100\%$$

$$= \frac{\$\_\_\_\_\_\_\_\_}{\$\_\_\_\_\_\_\_\_} \times 100\%$$

$$= \_\_\_\_\_\_\_\_ \text{\% (allocated profit)}$$

27. Your price is:

Raw materials $______________

Indirect costs $______________

Profit $______________

Sales tax $______________

Total including tax $______________

28. When quoting a non-competitive price to a customer, what are your three options?

a. ____

b. ____

c. ____

29. If your price is not competitive, what should you do?

____

____

____

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

______ 1. Direct costs

______ 2. Expenses

______ 3. Gross profit

______ 4. Allocated costs

______ 5. Full cost

______ 6. Indirect costs

______ 7. Mark-up

______ 8. Cost of sales

______ 9. Labor costs

______10. Material costs

______11. Costs

a. Accounting term for cost; a subheading on the income statement which identifies indirect costs

b. Amount added to the direct cost of the good or service to include an allocated share of indirect costs and profits

c. Sub-heading on the income statement which identifies the direct costs of goods or services sold

d. Costs that can be traced directly to and are caused by the good or service

e. Money measurement of resources used to produce a good or service

f. Total cost of the material used to produce the good or service

g. Costs of which a proportional share are assigned to given goods or services

h. Calculated difference between Sales and Cost of Sales

i. Total cost to produce a good or service which includes all direct costs and a proportionate share of indirect costs

j. Costs that cannot be traced to a specific good or service.

k. Total cost of the labor to produce a good or service

CHAPTER 13

Keeping Score

PRACTICE EXERCISES

1. How does bookkeeping differ from accounting?

2. Which records should you keep?
   a.
   b.
   c.
   d.
   e.

3. Why is the accounting process important to a manager?

4. Why is a single-entry system referred to as the simplest bookkeeping system?

5. Single-entry bookkeeping systems include ______________________
and ______________________.

6. What information must be recorded for a cash sale?

7. What additional information is needed for a credit sale?

8. The small business manager depends on a single-entry system to provide what information?
a. ______________________
b. ______________________
c. ______________________
d. ______________________
e. ______________________

9. Why is the double-entry system appropriately named?

10. In a double-entry system, each transaction is recorded in a journal with ______________________
and ______________________.

11. **What is the basic accounting equation?**

____

12. **A ____________________ is a financial exchange between entities exchanging money for goods purchased.**

13. **An __________________ is an accounting entry within the business entity.**

14. **What are the three types of entities?**
    - a. ______________________________
    - b. ______________________________
    - c. ______________________________

15. **Business owners record transactions in their ____________________ called ____________________ .**

16. **The purpose of the journal is to provide the owner ____________________ of the business.**

17. **______________________________ is an example of an event.**

18. **What information is included in each transaction recorded in the journal?**

____

____

____

____

____

19. **The left column is to enter __________________________ amount and the right column is to enter __________________________ .**

20. **What is the basic accounting rule?**

____

____

____

____

21. What are the three key financial statements that all businesses should have?

a. ______________________________

b. ______________________________

c. ______________________________

THE DOUBLE-ENTRY SYSTEM

Each individual account can be represented by a "T" with debits on the left side and credits on the right side of the "T" as shown below:

Date	Item	Check No.	Debit	Credit	Balance
6/10	Professor's loan deposit		$ 7,000.00		$ 7,000.00
7/1	Purchase of bakery	check 101		$ 3,000.00	4,000.00
7/1	Utility deposit - gas	check 102		300.00	3,700.00
7/1	Utility deposit - electricity	check 103		750.00	2,950.00
7/1	Utility deposit - phone	check 104		250.00	2,700.00
7/1	Loan from friend -deposit		1,500.00		4,200.00
7/1	Bank loan - deposit		5,000.00		9,200.00
7/2	Food inventory	check 105		541.85	8,658.15
7/2	Loan payment - professor	check 106		5,000.00	3,658.15
7/31	July sales - deposit		3,154.71		6,812.86
7/31	Trash	check 107		38.25	6,774.61
7/31	Cleaning	check 108		18.55	6,756.06

Figure 13-1 Entries in the Corner Bakery checking account

The balance of any account, at any point in time, is either a debit or a credit balance, depending on which side of the "T" is greater. It is the "net total" of the debits and credits.

Most accounting systems represent debits as positive numbers and credits as negative numbers (designated with either a "-" sign, the characters "CR" following the number, or in parentheses).

In financial statement presentations, accounts that normally have debit balances (e.g., all asset accounts or expense accounts) usually show numbers in parentheses when the balance is a credit. Conversely, accounts that normally have credit balances (e.g., liability accounts, equity accounts, or revenue accounts) show numbers in parentheses when the balance is a debit.

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Double-entry
_____ 2. Contract
_____ 3. Chart of accounts
_____ 4. Business entity
_____ 5. Accounting
_____ 6. Credit
_____ 7. Individual entity
_____ 8. Ledger
_____ 9. Net worth
_____ 10. Period report
_____ 11. Journal
_____ 12. Debit
_____ 13. Liability accounts
_____ 14. Paid-in capital
_____ 15. Posting
_____ 16. Profit and loss statement
_____ 17. Retained earnings
_____ 18. Single entry
_____ 19. Event
_____ 20. Non-business entity
_____ 21. Asset accounts
_____ 22. Entity
_____ 23. Bookkeeping
_____ 24. Promissory note
_____ 25. Cost of goods sold
_____ 26. Income statement
_____ 27. Source document
_____ 28. Transaction
_____ 29. Trial balance

a. Recording, classifying, analyzing, interpreting, summarizing, and reporting financial transactions
b. Business as it exists separate from its owners
c. Entry in the left-hand column that increases an asset or expense account, or decreases a liability, net worth, or revenue account
d. Accounts which record transactions of "things" (such as cash, receivables, land, buildings, and similar items) owned by the business
e. Something that exists independently
f. Paper form such as a check, sales slip, or receipt which supports every accounting transaction
g. Owner's equity, or the value of assets in excess of the liabilities of the business
h. Bookkeeping system that does not record transactions explicitly with debits equal to credits (sometimes called "one-sided" entries)
i. Entry in the right-hand column that increases a liability, net worth, or revenue account, or decreases an asset or expense account
j. Accounting entry to recognize a value change between two or more accounts within the business
k. Listing of all accounts in the chart of accounts, along with the balance of each account, at the end of the normal accounting period
l. Recording each transaction from the journal to the ledger
m. Signed written promise to pay a given amount in a given time
n. Organization such as a church, school, or other non-profit organization
o. Book of original entry used to record, usually in chronological order, each business and/or financial transaction and event of the business

p. Systematically classifying and recording business transactions and events
q. Method of recording the debits and credits of a business transaction or financial event in a journal and a ledger such that the sum of all the debits numerically equals the sum of all of the credits
r. Account that reflects the accumulated profit or loss of the company since its beginning
s. Report summarizing the revenue and expense transactions for a period between two balance sheet reports (sometimes called a profit and loss statement or a P & L)
t. Summary of income and expense for a given time period, such as an income tax schedule (sometimes called an income statement or profit and loss statement)
u. List of asset, liability, net worth, revenue and expense accounts maintained in the company's books
v. Total of direct costs
w. Book used to record or "post" each transaction and event recorded in the journal to individual accounts as a credit or debit
x. Type of sale agreement in which the asset ownership does not change until payments are completed
y. Money invested in the business by its owners or shareholders
z. Accounts in which amounts owed by the business are recorded (such as payables, loans, and similar items)
aa. A report summarizing the revenue and expense transactions for a period between two balance sheet reports
bb. You or I as an individual
cc. Financial exchange between entities

CHAPTER 14

Interpreting the Scorecard

PRACTICE EXERCISES

1. How can the Corner Bakery control inventory by using previous sales data?

2. In decision making, what is the most useful predictor of future performance?

3. What is the formula to measure the degree of solvency?

4. What is the degree of solvency for your business at this time? (Calculate in the space below.)

5. What is the formula to calculate current ratio?

6. What is the current ratio for your business at this time? (Calculate in the space below.)

7. What is debt service ratio?

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Current ratio
_____ 2. Degree of solvency
_____ 3. Liquid assets
_____ 4. Purchase agreement
_____ 5. Business ratios
_____ 6. Leasing
_____ 7. Debt service ratio
_____ 8. Self-sustaining

a. Method of comparing business items, a short cut way to find out if additional information is needed
b. Business ratio based on current assets and current liabilities
c. Business ratio based on the percentage of income dedicated to debt payment
d. Business ratio dealing with liquidity
e. Renting assets instead of purchasing them (allows more capital to be used in other resources)
f. Assets owned that can be readily turned into cash
g. Agreement that lease payments apply to the purchase price
h. Meeting all expenses on a current basis

CHAPTER 15

The Question of Credit

PRACTICE EXERCISES

1. What are the advantages and disadvantages of extending credit in your business?

ADVANTAGES	DISADVANTAGES

2. What are the characteristics of the following types of credit?

   a. open charge account

   b. installment credit

   c. bank cards (plastic)

3. Write a credit policy for your business.

4. What additional resources must you research before establishing your credit policy?

5. How do the federal Truth-in-Lending Laws affect your business?

6. What is your business collection procedure? (Describe.)

7. When will borrowed money be needed in your business?
(Review your company cash flow budgets.)

How much credit should you plan for? (Explain.)

____

____

____

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Truth-in-Lending Laws
_____ 2. Annual percentage rate (APR)
_____ 3. Collateral
_____ 4. Credit
_____ 5. Open charge
_____ 6. Creditor
_____ 7. Lien
_____ 8. Installment credit
_____ 9. Bank cards
_____ 10. Credit application
_____ 11. Revolving credit
_____ 12. Line of credit
_____ 13. Collections
_____ 14. Credit rating
_____ 15. Collection agency
_____ 16. Credit bureau
_____ 17. Credit policy
_____ 18. Durable goods

a. Annualized percentage rate of the finance charge
b. Bank credit cards allowing customers to purchase items on credit (The bookkeeping and billing is completed by the banks for a percentage of the sale amount.)
c. Property pledged as security for a loan
d. Organization that will collect debts for a fee
e. Obtaining payment of amounts due
f. Obtaining goods or services on the basis of deferred payment
g. Written information gathered on a form to make the credit-granting decision
h. Organization providing credit information to businesses for a fee
i. Entity owed
j. Rules set for when to grant credit
k. Estimation of repayment ability for a business or individual
l. Credit for a particular transaction to be paid in installments
m. Monetary claim against property
n. Borrowing arrangement that allows the use of a loan up to a given amount
o. Purchases are made on credit and paid for on agreed terms (e.g., 5 percent discount if paid within 10 days)
p. Purchases are made on credit and payments are based on a percentage of the balance
q. Consumer protection laws requiring the full disclosure of terms in a credit sale
r. Items likely to have resale value

CHAPTER 16

Managing Cash Flow

PRACTICE EXERCISES

1. What are the first three goals for a new (or any) business?
   - a. ______
   - b. ______
   - c. ______

2. What may contribute to cash flow problems in your business?
   - a. ______
   - b. ______

3. What are some resources that will assist your cash flow budgeting? (e.g., texts or articles you should read prior to developing your cash flow budget.)

4. What are the lender's ABC's of lending money?
   - a. ______
   - b. ______
   - c. ______

5. What is a bank lending officer's first responsibility?

6. What are some potential cash flow problems that could negatively impact your business?

   a. ______________________________
   b. ______________________________
   c. ______________________________
   d. ______________________________
   e. ______________________________

7. Why are balance sheets, income statement projections, and cash flow forecasts important financial documents to a lending officer?

   ____
   ____
   ____

8. How will you resolve cash flow problems that may occur in the next 12 months?

   ____
   ____
   ____

9. What may a lender require in a start-up business?

   ____
   ____
   ____

10. How will a line of credit alleviate potential cash flow problems for your business?

    ____
    ____
    ____

11. George M. Dawson, author of *In Borrowing for Your Business*, states seven questions the business owner must answer prior to a lender approving your business loan. What are seven questions which are applicable to your business loan?

    a. ______________________________
    b. ______________________________
    c. ______________________________
    d. ______________________________
    e. ______________________________
    f. ______________________________
    g. ______________________________

12. **Describe the cash flow cycle for your business. (Use the diagram appearing below. Show how these elements specifically relate to your business. Also consider the time required between the elements of this cycle.)**

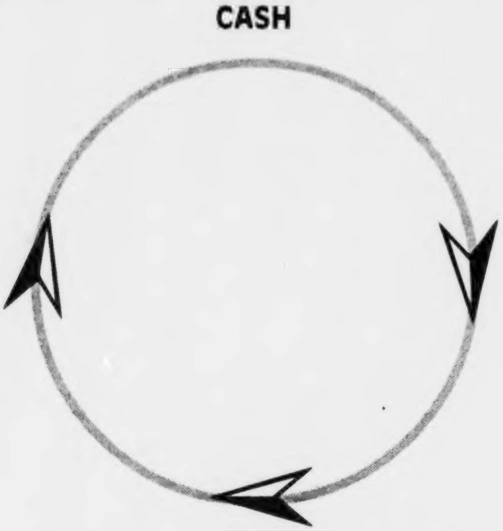


Figure 16-1 Cash flow cycle for my business

13. How do time elements and scheduling relate to the cash flow cycle?

14. How much time will elapse while converting inventory into cash in your business?

15. When reviewing loan applications, why do bank officers want to know how the business owner will use borrowed money?

16. What is the line of credit concept?

17. CASH FLOW FORECAST EXERCISE

Suppose you are planning (forecasting) the cash flow situation for the Corner Bakery for the six-month period from April through September, 1991, inclusive.

Use the following information to make this six-month cash flow forecast (all data is on a cash basis; that is, when cash will be paid out or received).

Revenues

SALES (Cash Sales)

April	May	June	July	August	September
$12,000	$13,000	$13,000	$15,000	$16,000	$16,000

Expenses

PAYMENTS TO BE MADE

Rent	$755.00 per month
Advertising	$300.00 per month
Bank loan payment	$160.00 per month
Contract purchase loan pavement	$140.00 per month

Food inventory purchases

April	May	June	July	August	September
$3,000	$4,000	$3,500	$4,000	$4,000	$4,000

Payroll Information

	April	May	June	July	August	September
Gross wages	$3,000	$3,000	$3,000	$3,500	$3,500	$3,500
Less withholding	$630	$630	$630	$735	$735	$735
Net wages	$2,370	$2,370	$2,370	$2,765	$2,765	$2,765
Employer payroll taxes (FICA, etc.)	$335	$335	$335	$390	$390	$390

Assume that withholdings and employer payroll taxes are paid in the same month as incurred.

Total Withholding Paid

April	May	June	July	August	September
$965	$965	$965	$1,125	$1,125	$1,125

Utilities

April	May	June	July	August	September
$420	$420	$475	$500	$500	$525

Services will be $50.00 per month.

Equipment costing $12,000 and $14,000 will be purchased and paid for in June and July respectively.

The owner plans to withdraw $4,000 each month.

How much money will have to be borrowed (if any) and when, to insure that the cash balance at the end of September is at least $5,000? (Assume that additional payments on this loan would be five percent of the amount borrowed beginning in the month following the loan.

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Cash flow budgeting
_____ 2. Accounts receivable
_____ 3. Equity funds
_____ 4. Inventory
_____ 5. Bad debt
_____ 6. Cash flow crisis
_____ 7. Long-term credit
_____ 8. Trade credit
_____ 9. Short-term credit

a. Money owed to the business
b. A debt that is considered uncollectable
c. Estimating the income and expenses for a given time period
d. Expenses exceeding cash on hand
e. Funds generated by ownership in the business
f. Listing of resources
g. Credit to be repaid in a term longer than a year
h. Credit to be repaid within the year
i. Suppliers shipping on open account

CHAPTER 17

Business Taxes

PRACTICE EXERCISES

1. Non-payment of required taxes or non-filing of mandatory tax returns will likely result in ____________________ and ____________________ .

2. Federal income tax withholdings are the responsibility of ____________________ for employees.

3. What are the tax records that I am required to keep?
   a. ____________________
   b. ____________________
   c. ____________________
   d. ____________________

4. Employers withholding employees' federal taxes must do the following:
   ____
   ____

5. Business owners with employees are obligated to ____________________ and ____________________ employee withholding taxes.

6. If your business is home-based, what IRS forms, publications, and titles are recommended for instructing legitimate deductions?
   Form No. ____________________
   Publication No. ____________________
   Title No. ____________________

7. Small business managers who hire employees must report their tax information. What is the purpose of Form 940? Form 941?

____

____

____

8. Business tax records must be kept for ____________________ years.

9. What is the purpose of the employer identification number?

____

____

____

10. What are your federal, state, and local tax filing requirements? (Use Figure 17-1 as a guideline.)

My Possible Tax Liability

My business is organized as a ________________________.

Type of Tax	Use Form	Due On or Before
Income tax		
Self-employment tax		
Estimated tax		
Annual return of income		
Social Security (FICA) & withholding taxes		
Information on SS (FICA) & withholding taxes		
Federal unemployment (FUTA) tax		
Information returns for payments to non-employees or others		
Excise taxes		

Figure 17-1 Possible tax liabilities

12. How can your local Small Business Development Center (SBDC) assist a business manager with federal and state taxes?

13. Which records should a business owner keep indefinitely?

14. What is the cash method for income tax reporting?

15. How does the accrual method differ from the cash method?

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Audit
_____ 2. Taxes
_____ 3. Withholding
_____ 4. Payroll taxes
_____ 5. Income tax
_____ 6. License
_____ 7. Sales tax
_____ 8. Document
_____ 9. Taxable
_____ 10. Accrual method
_____ 11. Cash method

a. Exacting examination of the records
b. Provide necessary verification or proof
c. State or federal tax on personal income
d. Fee paid to operate a certain business
e. Taxes deducted from a worker's pay
f. Tax on sales of good or services
g. Subject to a tax
h. Money raised by levies to pay the cost of government services
i. Expenses are recognized when obligated, and income when the sale is made regardless of when the payments are made
j. Income and expenses are recognized at payment
k. Payroll taxes

c

PART V

Managing Small Business

CHAPTER 18

Delegating Details

PRACTICE EXERCISES

1. Write a job description for the first employee you will hire.

2. When recruiting employee(s) you will refer to ______________________ sources for applicants.

3. What steps will you follow when recruiting employees?
   a. ______________________
   b. ______________________
   c. ______________________
   d. ______________________
   e. ______________________

4. Complete the following sample employment application for a model employee.

Application for Employment at the X Y Z Company

PERSONAL

Name ______________________ Social Security # ______________

Address ______________________ Telephone # ______________

______________________ Date of Birth ______________

EDUCATIONAL BACKGROUND

Schools Attended	Dates	Degrees Awarded
1.		
2.		
3.		

(other training – technical, trade, business, military)

EMPLOYMENT HISTORY *(most recent first)*

Name/Address	Dates	Salary	Duties	Reason for Leaving
1.				
2.				
3.				

REFERENCES

Name three persons we may contact who are familiar with your qualifications.

Name	Address/Phone Number	Relationship
1.		
2.		
3.		

Include comments or special qualifications on the back of this form.

Date ______________ Signature ______________________

Figure 18-1 Sample employment application

5. Write a confirmation letter to an applicant you interviewed and hired for a position in your company.

6. Write a rejection letter to applicant(s) interviewed, but not hired.

7. What are some questions you will ask during an interview with an applicant? (Use a checklist format.)

8. **Write an orientation checklist to familiarize your new employee with the work environment.**

9. Develop a checklist for delegating responsibilities. Add your questions to those suggested in Chapter 18 of the student text.

10. Write a sample agenda for a staff meeting. (Refer to Figure 18-3 on page 184 of the student text.)

11. Write an employee incentive plan that your business will implement.

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Proprietary
_____ 2. Training
_____ 3. Adversarial relationship
_____ 4. Incentive
_____ 5. Job description
_____ 6. Application
_____ 7. Orientation
_____ 8. Interview
_____ 9. Stock shares
_____ 10. Word-of-mouth

a. Opposing
b. Request for consideration
c. Inducement for superior performance
d. Personal conversation to determine a hiring decision
e. Listing of qualifications or skills for a given job
f. Acquainting a new employee with the job and the company
g. Owned by the company
h. Partial ownership of the business
i. Preparing new employees to do the job your way
j. From one individual to another

CHAPTER 19

What Risks Are There?

PRACTICE EXERCISES

1. What is risk management as it relates to your business?

2. What are four things that contribute to business failures?

   a.

   b.

   c.

   d.

3. What are four risk management strategies? (Describe below.)

	Risk Management	Definition	How Does It Apply to My Business?
a.			
b.			
c.			
d.			

4. Complete the insurance checklist in the textbook *Insurance Checklist for Small Business* (*U.S. Small Business Management Aids* 2.018) by Mark R. Greene. Add notes to discuss with your insurance agent/broker.

   Then, using this checklist and the following worksheet, develop a list of the business and personal insurance coverage you should consider purchasing. Next, write the specifications for these personal and business insurance needs to be submitted to two or more insurance companies for premium quotations.

Preliminary Insurance Worksheet

Type of Risk	Amount of Insurance (policy limits)	Type of Policy	Deductible	Premium
Commercial bldg.				
Contents				
Endorsements				
Liability				
Employees				
Life insurance				
Group medical				
Commercial auto				
Personal autos				
Homeowners				
Others				

Figure 19-1 Insurance worksheet

5. What is the risk transfer plan for your business venture?

____

____

____

6. What are the pure risks in your business? Which risk options will you apply?

   a. ____________________________________
   b. ____________________________________
   c. ____________________________________
   d. ____________________________________
   e. ____________________________________
   f. ____________________________________

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Risk transfer
_____ 2. Deductible
_____ 3. Insurance
_____ 4. Perils
_____ 5. Premium
_____ 6. Risk
_____ 7. Speculative risk
_____ 8. Risk management
_____ 9. Exclusions
_____ 10. Risk reduction
_____ 11. Endorsement
_____ 12. Coverage
_____ 13. Risk retention
_____ 14. Pure risk
_____ 15. Risk avoidance
_____ 16. Property insurance
_____ 17. Liability insurance
_____ 18. Homeowners
_____ 19. Policy

a. Specific perils insured against
b. Amount that the insured is not reimbursed in a loss
c. Special clause added to an insurance policy to cover certain perils
d. Things excluded from the coverage
e. Insurance policy to protect private homeowners
f. Risk of loss is assumed by an insurance company for a premium
g. Insurance against any liability arising from a given activity
h. Risks covered by an insurance policy
i. Written details and conditions of purchased insurance
j. Money paid for an insurance policy
k. Insurance on property to protect from fire loss and similar perils
l. Insurable risk such as fire or tornado
m. Chance of misfortune, such as loss of your capital
n. Avoiding the activities that cause risk
o. Selecting a risk option alternative
p. Using training or other methods to reduce risk
q. Carrying the risk yourself instead of purchasing insurance
r. Purchasing insurance so the insurance company carries the risk
s. Risk of loss you accept when you invest money in your business

CHAPTER 20

Managing Business Expansion

PRACTICE EXERCISES

1. What are your options for the greatest potential increased revenues from expansion and minimized financial risk?

   a. ______________________________

   b. ______________________________

   c. ______________________________

2. What is a business scenario that describes the options available to you for business expansion?

   ____

   ____

   ____

   ____

   ____

   ____

   ____

   ____

   ____

3. Which computer software will help you develop your cash flow forecast? Which computer software will benefit your business planning?

   ____

   ____

   ____

   ____

   ____

   ____

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Home-based

_____ 2. Operating capital

_____ 3. Spreadsheet

_____ 4. Zoning ordinances

_____ 5. Feasibility

_____ 6. Sales tax permit

_____ 7. Expansion

_____ 8. Support team

a. Enlarging the business through various means

b. Checks the possible profitability of a proposed decision

c. Operated from the home

d. Funds used to maintain operations

e. Permit to collect mandatory sales taxes

f. Powerful computer program that can give quick answers to financial projections of varying conditions

g. Those who lend support and aid to an entrepreneur

h. Laws restricting certain business locations

Legal Concerns for Your Business

PRACTICE EXERCISES

1. What three choices does an owner have to organize business form?
   a. ______________________________
   b. ______________________________
   c. ______________________________

2. What are the formal requirements for operating a sole proprietorship?

____

____

____

____

3. How does a sole proprietorship differ from a partnership? Corporation?

____

____

____

____

4. If a partnership has no written agreement between partners, how do you determine rights and liabilities?

____

____

____

____

5. What is the purpose of the Unified Partnership Act?

____

____

____

____

6. What are the two types of corporations and how do they differ?

a. ____

____

____

b. ____

____

____

7. What are the characteristics of the various business forms? (Complete the chart in Figure 21-1 on page 131.)

THE ENTREPRENEUR'S VOCABULARY

Match each term with its correct definition.

_____ 1. Uniform Commercial Code
_____ 2. Bylaws
_____ 3. Warranties
_____ 4. Articles of incorporation
_____ 5. Shareholders
_____ 6. Americans with Disabilities Act
_____ 7. Environmental Protection Act
_____ 8. Lien rights
_____ 9. Occupational Health and Safety Act (OSHA)
_____ 10. Sheltered
_____ 11. Trust fund taxes
_____ 12. Accrue
_____ 13. Ratify

a. Withholding taxes collected from employee wages
b. Written items describing the purpose and organization of the corporation
c. Written guidelines for the operation of the organization
d. Sale of goods sometimes gives implied guarantees
e. Protected from personal liability
f. Act providing equal access and opportunity for all Americans
g. Ownership of a corporation based on investment
h. Claim against assets of the company
i. Regulates the working conditions which employers provide their employees
j. Law to protect the environment
j. To accumulate
k. Regulates sales between merchants
l. To approve

Characteristics of Business Forms

	SOLE PROPRIETORSHIP	PARTNERSHIP	S-CORPORATION	C-CORPORATION
Definition				
Financial Obligations				
Management Structure				
Purchases/ Sales				
Licensing/ Regulations				
Compliance with Law				
Liability				
Ownership Changes				

Figure 21-1 Characteristics of business forms

ADDENDUM A

PROBLEM-SOLVING AID 1

Adapted from *Small Business Decision Making* (*U.S. Small Business Administration Management Aids* 2.032).

Summary

The purpose of this AID is to acquaint small business owners and managers with the wealth of information available on management decision making. This publication presents approaches and techniques managers can use to identify, analyze, and solve problems. It also furnishes additional sources of information for those who want to study the subject or a specific technique in greater depth.

Everyone is a decision maker. We all rely on information, techniques, and tools to help us in our daily lives. For example - when we go out to eat, the restaurant menu is the tool which provides us with the information needed to decide what to purchase and how much to spend. Operating a business also requires making decisions using information and techniques; that is, how much inventory to maintain, what price to sell it at, what credit arrangements to offer, and how many people to hire.

Decision making in small business is the systematic process of identifying and solving problems - of asking questions and finding answers. Usually, decisions are made with uncertain conditions. The future is not known and sometimes even the past is suspect. This AID opens the door for small business owners and managers and helps them learn about the variety of techniques which can be used to improve decision making in a world of uncertainty, change, and uncontrollable circumstances.

A General Approach to Decision Making

Whether you are a scientist, an executive of a major corporation, or a small business owner, the general approach to systematically solving problems is the same. The following 7-step approach to better management decision making can be used to study nearly all problems faced by small businesses.

1. **State the Problem.** A problem must first exist and be recognized. Ask the questions: what is the problem and why is it a problem? What is ideal and how do current operations vary from that ideal?

   Identify the symptoms (what is going wrong) and the causes (why it is going wrong). Try to define all terms, concepts, variables, and relationships. Quantify the problem to the extent possible. For example - if your problem is inaccurate and slowly filled customer orders, determine how many orders were incorrectly filled and how long it took to fill them.

2. **Define the Objectives.** What are the study's objectives? Which objectives are the most critical? Usually objectives are stated using an action verb such as "to reduce," "to increase," or "to improve." Returning to the customer order problem: the major objectives are the following:

   a. to increase the percentage of correctly filled orders
   b. to reduce order-processing time.

   A sub-objective could include "to simplify and streamline the order-filling process."

3. **Develop a Diagnostic Framework.** Decide what methods to use, what information is needed, and how and where to find the information. For example – is there to be a customer survey, a review of company documents, time and motion tests, or other items? What are the assumptions (facts assumed to be correct) of the study? Are there time, budget, or other constraints? What quantitative or other techniques are to be used for analyzing the data? (Some of these will be covered later in this text.) In other words, the diagnostic framework establishes the scope and methods of the entire study.

4. **Collect and Analyze the Data.** Analysis is the critical prerequisite of sound business decision making. Collect the data by following the methods established in number 3. These raw data are then tabulated and organized to facilitate analysis. (Some of the standard ways to organize raw data are tables, charts, graphs, indexes, and matrices.) Then ask the questions: What do the data reveal? What facts, patterns, and trends can be seen in the data? (Many of the quantitative techniques covered in this AID can be used here to determine this information.) Computers are often used extensively during this step.

5. **Generate Alternative Solutions.** When the analysis is finished, some specific conclusions about the nature of the problem and its resolution are reached. The next step is to develop alternative solutions to the problem and rank them in order of their net benefits. But how are these alternatives best generated? Again, there are several well-established techniques, such as the Nominal Group Method, the Delphi Method, brainstorming, and others. In all these methods several people are involved, all of whom have reviewed the data and analyses. The result is an informed group of people who suggest a variety of possible solutions.

6. **Develop an Action Plan and Implement It.** Select the best solution to the problem, but be certain to clearly understand why it is best; that is, how it achieves the objectives established in Step 2 better than its alternatives. Then develop an effective method (Action Plan) to implement the solution. At this point an important organizational consideration arises – who is responsible for seeing the implementation through to completion, and what authority does he or she have? This selected manager is responsible for seeing that all tasks, deadlines, and reports are performed, met, and written. Schedules, reports, tasks, and communication are the key elements of any Action Plan, so details are important in this step. The PERT method is one of several techniques available to decision makers implementing an action plan. PERT will be covered soon in this text.

7. **Evaluate, Obtain Feedback, and Monitor.** After the Action Plan is implemented to solve a problem, management evaluates its effectiveness. Evaluation standards are determined, feedback channels are developed, and monitoring is performed. This step is done after three to five weeks, and again after six months. The goal is to answer the bottom-line question: has the problem been solved?

Specific Decision-Making Techniques

The following nine techniques are used frequently by business and government managers. Some are familiar (Benefit-Cost Analysis), others more esoteric (Linear Programming); some are used for planning projects, others for analyzing data. Most of these techniques are mathematical or have mathematical aspects to them. They all can be used as outlines during one or more steps of the General Approach.

1. **Systems Analysis.** Depending on the nature of the problem, Systems Analysis can be used by the small business owner to study the inputs, processes, and outputs of the entire company, a division, or one office. *Inputs* are the resources (labor, materials, and facilities) used by the business to produce the *outputs* (goods or services). *Processes* are the methods and organization which manage the conversion of inputs to outputs. By using Systems Analysis, decision makers can evaluate a system's various components separately on the basis of established objectives (e.g., cost or error rate). If a problem is identified as belonging to a specific system component, it is corrected without disrupting the other components.

2. **Benefit-Cost Analysis.** This technique is used to compare the pros and cons of alternative solutions to a problem. To perform this type of analysis, the manager must define the problem, determine objectives, develop alternatives, put a dollar value on all benefits and costs of each alternative, calculate the Benefit Cost Ratio (benefit divided by cost) and/or the Net Benefit (benefit minus cost), and make the decision. This analysis establishes a clear relationship between expenditure (cost) and purchase (benefit). It can be used to study problems in which dollar signs can be assigned to the costs and benefits of alternative methods to achieve an objective.

3. **Input-Output (I/O) Analysis.** This analysis charts the flow of a product from one industrial sector, company, department, or facility to another. It shows which inputs produce which outputs. I/O Analysis uses *Transaction Tables* (which show the purchasing and selling activities of buyers and sellers) and *I/O Coefficients* (the product sold by A to B divided by the output of B). It is used most often by larger companies to help with long-term planning, but smaller manufacturing firms may also find this useful.

4. **Regression and Correlation Analysis.** This is used to study the relationship among variables – for example, the relationship of household income to product sales. It can be used to determine how increases in household income affect sales volume. Business managers use *Multiple Regression Analysis* to study relationships among sales, income, interest rates, and education. They use *Correlation Analysis* to study how strong or accurate a relationship is, as well as statistical factors such as measurement fit, deviation, and error. Also, companies often use this technique to study demand, pricing, supply, and cost curves.

5. **Modeling.** This technique is used by business managers to simplify a complex world. A model shows relationships among the parts of a whole and assist with forecasting. It is a simplified representation of a system, situation, or process. Models may be physical, symbolic, verbal, graphic, or mathematical. For example – a model can be a distribution system illustrated graphically using a flow chart. Model building is used in the physical and social sciences, as well as in business management.

6. **Linear Programming.** This technique is a widely used mathematical method of determining a single, optimum solution to a problem, such as finding the minimum staff cost or the most nutritional mixture of feed ingredients. Linear Programming should be used only with problems which can be translated entirely into numbers and have a single, optimum objective or solution. A good example is the task of processing invoices in an office. There is a given total workload, an established workload per worker by skill (pay) level, and given staffing requirements. Linear Programming can be used to determine the least expensive combination of workers and their respective skill levels to handle the given workload. This technique can be done by hand, but today's computer software business management packages often contain Linear Programming instructions.

7. **Forecasting.** This technique involves making decisions based on predictions of future trends and events such as inflation and interest rates, employment levels, or supply costs – all of which can affect sales of small businesses. The principal emphasis in forecasting is to look for patterns and fluctuations over time. There are three types of forecasting techniques:

   a. *Subjective* or *Qualitative* – relies on expert judgments

   b. *Time-series Projection* – uses quantifiable observations over a time period

   c. *Causal Model* – emphasizes causal/correlational relationships

9. **Decision Tree.** This technique plots the sequence of alternative decisions needed to solve a larger problem. Solutions to a complex problem can be sketched out on a single sheet of paper. An actual Decision Tree looks like a flow chart; each alternative decision has consequences that lead to other decisions. Each decision is then represented by a branch on the tree. You can also add probability and payoff calculations for each decision.

10. **Program Evaluation and Review Technique (PERT).** This final technique sequentially charts the individual tasks and activities needed to complete a project. The result is a flow chart of the entire project. PERT provides the *critical path*; that is, it calculates the project completion date by determining the longest time it will take to complete each important task. This technique reduces uncertainty by helping managers make decisions about scheduling and resource allocation. It calculates a time schedule and the probability of keeping on that schedule. PERT is often used on construction projects; however, it is a very flexible tool and can also be used to conduct market research and similar tasks. (This technique was pioneered by Admiral Rickover when he ran the Nation's nuclear submarine production program.)

PROBLEM-SOLVING AID 2

This AID is adapted from *Techniques for Problem Solving* by Adam Radzik and Sharon Emek, Ph.D. (*U.S. Small Business Administration Management Aids* 3.010).

Summary

A business owner deals with problems on a daily basis. Therefore, how problem solving is approached can dramatically affect the growth of the business. Although the owner may solve a problem, he or she may not be skilled in the methods of problem solving. When a proposed solution fails, this owner may feel responsible due to a misjudgment. However, this failed solution is often not due to a misjudgment, but rather a lack of skill in problem solving.

This AID provides instruction in some problem-solving techniques. An owner of a business faced with problems must understand and define what the problems are, find solutions, and select the best solution for each problem. This AID explains the following:

1. Identifying a problem
2. Responding to a problem
3. Identifying various problem-solving techniques and methods
4. Finding alternative solutions
5. Selecting the best solution for the situation
6. Designing a plan of action
7. Implementing a plan of action
8. Assessing the success of the solution and the plan of action

Introduction

WHAT IS A PROBLEM?

A problem is a situation that presents difficulty or causes perplexity. Problems come in many shapes and sizes – for example:

1. Something did not work as expected and you don't know why; how do you determine the cause?
2. Something you need is unavailable; how do you replace it?
3. Employees are undermining a new program; how do you counteract this activity?
4. The market is not buying; how do you survive?
5. Customers are complaining; how do you handle their complaints?

WHERE DO PROBLEMS COME FROM?

Problems are a natural, everyday occurrence of life. They arise from every facet of human and mechanical activity, as well as from nature. Some problems we cause ourselves (e.g., hurrying and choosing the wrong person for a job). Other problems are caused by forces beyond our control (e.g., a warehouse is struck by lightning and burns to the ground).

In order to ease the tensions and frustrations problems cause, we must learn how to deal with problems in a rational, logical fashion. If we accept the fact that problems arise on a regular basis, for a variety of reasons, and from a variety of sources, we can do the following:

1. Learn to approach problems from an objective point of view
2. Learn how to anticipate some problems
3. Prevent some problems from becoming worse.

To accomplish these, you must learn the problem-solving process.

This AID instructs you in the basic methods of problem solving. It is a step-by-step guide that you can easily follow and practice. As you follow this guide, you will eventually develop some of your own strategies that will work with the problem-solving process described in this workbook.

As you read this text, keep in mind that it is not a comprehensive analysis of the art of problem solving, but rather a practical, systematic, simplified, and effective way to approach problems. It considers the limited time and information most business owners and managers have. However, remember that some problems may be beyond your ability, skill, and desire to succeed. Some problems are so complex that they require the additional help of experts in the field.

Identify the Problem

1. **You must recognize that a problem exists before you can solve it**. At this point your approach to problem solving is crucial. View it as an intellectual exercise and approach it rationally. Remember that every problem is solvable if tackled correctly. Do not allow the problem to intimidate you. For example – fear can block your ability to think clearly, but the following tips can help you control your fear:
    a. Follow a workable procedure for solving the problem.
    b. Accept the fact that you can't prevent every problem.
    c. Assume that the solution you select is the best option at that time.
    d. Accept the possibility that things may change and your solution could fail.

2. **After you recognize that a problem exists, you must identify the problem.** To do this you must determine how the problem occurred. Ask the following questions:
   a. Did something go wrong?
   b. Did something break down?
   c. Were there unexpected results or outcomes?
   d. Is something that once worked no longer working?

3. **You must discover the nature of the problem.** Ask these questions:
   a. Is the problem caused by employees, operational difficulties, technical malfunctions, or like items?
   b. Is the problem occurring in a particular department or with a particular product, service, or like item?
   c. Is the problem tangible or intangible?
   d. Is the problem external or internal?

4. **You must determine how significant the problem is.** Its level of significance may influence whether or not you choose to deal with the problem. Sometimes a minor problem, when analyzed, proves to be a major problem; the reverse can also be true. To determine a problem's significance, ask the following questions:
   a. Is the problem disrupting operations?
   b. Is the problem hampering sales?
   c. Is the problem causing conflict among employees?
   d. Is the problem an everyday occurrence, or is it infrequent?
   e. Is the problem affecting employees and their productivity?
   f. Is the problem common in nature or unusual?
   g. Is the problem affecting goals; if yes, which ones?
   h. Is the problem affecting customers, vendors, or other external people?

5. **You must determine the type of problem.** Ask these questions:
   a. Did the problem occur in the past and you want to prevent it from occurring again?
   b. Does the problem currently exist and you want to solve it now?
   c. Is it a potential problem and you want to prevent it from occurring?

The answers to all these questions will help you focus on the true problem. You cannot effectively research the cause of a problem until you have a clear understanding of what the problem is. Sometimes, people spend many hours trying to solve what they perceive as the problem. Later, after seeking the cause, they discover that the actual problem was something else entirely.

In order to appropriately identify the problem and its causes, you must research it. Simply list all the previous questions in checklist form. Take this checklist with you when you are gathering information about the problem. Then interview the people involved with the problem and ask them the questions on your checklist. Keep in mind the relative importance and urgency of the problem, as well as your time limitations.

After you've gathered and reviewed the information, you will have a relatively clear understanding of the problem and its major causes. At this point, you can research the causes further through observation and additional interviewing. Next, briefly summarize the problem, its causes, and the areas affected by it.

Before working on a solution to a problem, more research can be done if it is warranted and possible. Ask the following questions:

1. What has previously been done about this problem?
2. What have other companies done in similar situations?
3. What formal knowledge may you need to acquire?
4. What has been learned from past experiences?
5. What have experts said about this problem?

Identify Roadblocks to Problem Solving

Many of our actions serve as roadblocks when solving problems. The following guidelines will help you avoid these roadblocks:

1. Be aware of old habits; don't procrastinate about solving the problem.
2. Approach the problem confidently and objectively.
3. Be rational; avoid emotional responses.
4. Check your perception of the problem; don't make assumptions.
5. Remember that the problem can change.
6. Complete each step in the problem-solving process; don't skip any.
7. Avoid reactive or rash solutions.

At this point, you are ready to check your understanding of the problem. So far you've identified the problem, researched it, narrowed it down, specified its factors, and avoided the typical roadblocks. Now, on a large drawing tablet, write down the problem: include all its factors, the areas it affects, and what these effects are. For visual clarification, you may also wish to diagram the problem showing its cause and effect.

Next, study what you have written and/or diagrammed. Discuss your analysis with your employees. Based on their feedback, you may decide to revise your analysis. When you think you fully understand the causes and effects of the problem, summarize it as clearly and simply as possible.

Find Solutions

There are a number of thinking methods for finding solutions. The following text describes five methods; use several when finding your solutions. The first four methods described below are more unconventional and innovative. They provide the possibility of a novel solution. The fifth thinking method is more typical and straightforward.

THINKING METHODS

1. **Association.** There are three types of associative thinking; it is basically a linking process using similarity, difference, or contiguity. For example – contiguity finds solutions in things that are connected through proximity, sequence, and cause and effect. In this case, the associative thinking process works as follows:

   a. List the identifiable parts of the problem.

   b. Next, list words or ideas that are related to these parts through proximity, sequence, or related cause and effect.

      For example, a contiguous association could be –

      "misplaced work" – "cluttered desk" (proximity)
      "misplaced work" – "rushing" (sequence)
      "misplaced work" – "irate customer" (cause and effect)

   Associative thinking taps the resources of the mind. It focuses on options you might not consider if you concentrate only on ideas directly related to the problem. As a result of associative thinking, you may find other relationships embedded in the problem that suggest a better solution.

2. **Analogy.** This thinking method finds solutions by using comparisons. The process compares the facets of two or more problems. For example – consider the following situation:

   > "My employees are frequently late to work; how can I get them to be punctual? This predicament is similar to soldiers in combat. Would soldiers be late for a battle? No – why not?"

   By comparing the actions of your employees to the actions of soldiers in combat, you may discover a way to motivate your employees to be more punctual.

3. **Brainstorming.** This thinking method works best in a free, non-threatening, "anything goes" atmosphere. You can brainstorm alone or with a group of people, preferably those with diverse backgrounds. The process works as follows:

   a. Explain the problem to the group (e.g., how do we increase sales or profit?)

   b. Encourage group members to suggest as many solutions as they can think of, no matter how ridiculous or far-fetched they may seem.

   c. Have the group thoroughly analyze all the solutions.

   d. Revise, reject, or expand each solution based on the group's analysis.

4. **Intuition.** This thinking method is based on hunches. It is not, as some think, irrational. Intuition has a strong foundation of facts and experiences buried in your subconscious. Everything you know and experience can convince you that something might be true, although you've never experienced that particular situation. Use your intuition as much as possible, but check it against the reality of the situation.

5. **Analytical Thinking.** This thinking method is the most conventional and logical of all the methods. It is based on analysis and follows this step-by-step pattern:
   a. Examine each cause of the problem.
   b. Then, based on your direct knowledge and experience, list the solutions that logically should remedy the problem.
   c. Next, check your solutions with those used by others to actually solve similar problems.

Use each of these thinking techniques to search for solutions. Keep a current list of all your solutions, even the ones that seem unconventional, too simple, or even impossible. This exercise will give you an abundant pool of ideas that will lead you to the best solution.

Choose the Best Solution

Now, review your list of solutions and eliminate those that obviously won't work. However, remember that these rejected solutions are not wasted; they impact the remaining ideas. In other words, your best solutions may be revised based on those that won't work.

Next, use the "Force Field Analysis Technique" on the the remaining solutions. Basically, this technique is an analysis which determines the advantages and disadvantages of a solution. It is as follows:

1. Write each potential solution on a separate piece of paper.
2. Below the solution, draw a vertical line down the center of the paper. Label one column "advantages" and one column "disadvantages."
3. List all the advantages and disadvantages you can think of for each potential solution. To do this, analyze all facets of each solution and their effects on the problem (analytical thinking).

Role play each problem situation and its possible solutions to determine its advantages and disadvantages. Ask your employees to help you with this; ask for their reactions. Use your observations and employee feedback to gain a better idea of the advantages and disadvantages of each solution you are considering.

After you complete this process for each potential solution, select those solutions which have the most advantages. At this point, you should be considering only two or three. In order to select the most appropriate solution, check each solution against the following criteria:

1. Cost effectiveness
2. Time constraints
3. Availability of labor, material, and like items
4. Your own intuition

Before you actually implement the solution, reevaluate it. Ask these questions:

1. Will this solution achieve its objectives?
2. Are these objectives sound and clear - not complex?
3. What are the possibilities this solution will fail? If so, in what way?

Design the Plan of Action

Finding the solution does not mean the problem is solved. The best solution can fail if it is not implemented correctly. Therefore, you need a plan of action to successfully implement your solution. Designing and carrying out this plan of action is as important as the solution itself. So, when designing the plan of action, consider the following:

1. Who will be involved in the solution?
2. Who will be affected by the solution?
3. What course of action will be taken?
4. How should the course of action be presented to employees, customers, vendors, and similar people?
5. When will it happen? (time frame)
6. Where will it happen?
7. How will it happen?
8. What is needed to make it happen?

Design a chart including all the details you must consider to carry out your plan of action. Indicate on this chart when each phase should begin and end. However, the best laid plans can go astray. There are many setbacks which can occur; for example - a key person is ill or a vendor ships your material late. So, remember that your time frame includes only target dates. Your solution and plan of action must be flexible; expect some revision.

Evaluate the Plan of Action

Before you implement the plan of action, analyze it to make sure you've considered as many variables as possible. Ask questions such as the following:

1. Who should be informed?
2. Who should be involved?
3. Do you have enough employees to carry out your plan?
4. Who is responsible for each aspect and/or phase?
5. Is your plan detailed, yet simple enough for those involved to know what to expect and how to carry it out?

6. Will your plan embarrass anyone (e.g., manager, employee, customer, vendor, or similar person)?
7. Is your time frame realistic and feasible?
8. Is your plan of action cost effective?
9. Are there special conditions that may have been overlooked?
10. Does your plan have a public relations component? (See following text for more information regarding public relations.)

Watch for Obstacles

There are a number of obstacles you may encounter when implementing your plan of action. Therefore, it is advisable that you devise ways to overcome them. Try not to allow obstacles to prevent you from reaching your goals. Some obstacles to watch for include the following:

1. Late shipment of material and/or equipment from a vendor
2. Additional situations which arise and divert your attention from the problem
3. Procrastination
4. Power struggle among management and/or staff
5. Resistance to change within yourself or your employees (a natural human characteristic)

Resistance to change and a lack of company-wide acceptance of your plan are typically the biggest obstacles. The best way to overcome these is to include a public relations component in your plan of action. Ask this key question - "How can I get my employees to support my solution and make it work?" Some effective ways to accomplish this include the following:

1. Involve as many managers and employees as possible in the problem-solving process.
2. Explain the problem, proposed solution, and plan of action to your employees through memos, newsletters, and posters. Show the advantages *and* disadvantages of the plan, but emphasize that this plan will *improve* the current conditions.
3. Hold meetings with employees to acquaint them with your solution and to receive their feedback.
4. If necessary, develop a training program for your employees so they will feel competent in carrying out your solution.
5. Involve key leaders who wield impact and influence others.

The key to a successful public relations (PR) campaign is to involve the people affected by the problem. You must be certain they understand the problem and why your solution will be effective. Consequently, these people will support your solution and ensure its success. Many times solutions fail - not because they are poor plans - but because employees sabotage them. Employees may resist change, especially if they feel threatened. Involving such employees will lessen their fears.

Simulate the Solution/Plan of Action

Before you implement your plan of action on a full scale, select a small group of managers and employees to role play the solution in the work setting. Observe the group as they carry out the solution and take note of the following:

1. Their reactions to the solution
2. Their understanding of the solution
3. How they carry out the solution
4. Effectiveness of the tools they use to carry out the solution
5. Their resistance to change (reverting back to previous behaviors)

Use what you observe to revise your plan, if necessary.

Assure Successful Implementation

To assure the successful implementation of your solution and plan of action, remember the following:

1. Prepare and train your staff well in advance.
2. Order equipment, material, and like items well in advance.
3. Hire necessary additional staff well in advance.
4. Use PR at every meeting and in memos as much as possible.
5. Evaluate the effects of each phase as it is implemented, and make necessary adjustments.
6. Remain flexible and open-minded.

Evaluate the Success of Your Solution

After implementing each phase of your plan of action, ask if your goals were achieved, how well were they achieved, and how smoothly did the plan work? To double-check the results, get as much feedback as possible from your managers and employees. What you may think is working may not be working well in the eyes of your employees. Always remember that they are one of your most valuable tools in successfully carrying out your solution.

ADDENDUM B

BASIC OUTLINE FOR A BUSINESS PLAN

NOTE: To write a successful plan, first obtain copies of other business plans to serve as models. Next, use textbooks and software to help you draft a functional plan.

PART I. EXECUTIVE SUMMARY

This brief overview of the plan is the last item written.

PART II. TABLE OF CONTENTS

The table of contents gives the names of the plan headings and their respective page numbers.

PART III. DEFINING THE BUSINESS

Common headings include the following:

Services/Products
Goals
Competition
Location
Competition
Market Niche
Advertising – Planned Advertising Budget
Pricing
My price is:

Raw materials $ ______________
Indirect costs $ ______________
Profit $ ______________
Sales tax $ ______________
Total including tax $ ______________

PART IV. FINANCIAL INFORMATION

Annual Family Budget Projection

Balance Sheets

Income Statement Projections

Cash Flow Forecasts

Federal Tax Returns

Capital Equipment

PART V. SUPPORTIVE INFORMATION

Key Personnel Data

Product/Services Information

Your Resume

SUMMARY

Remember – the purpose of writing your business plan is threefold:

1. To share your vision with your spouse, lenders, partners, employees, investors, and customers
2. To focus strategic planning that will serve as an operating guide for the principal's daily activities
3. To provide financial data so the principal will know his/her cash position at any given time

My Possible Tax Liability

Type of Tax	Form to Use	Due On or Before
Income tax		
Self-employment tax		
Estimated tax		
Annual return of income		
Social Security (FICA) and withholding taxes		
Information on SS (FICA) and withholding taxes		
Federal unemployment (FUTA) tax		
Information returns for payments to non-employees or others		
Excise taxes		

My Resource List for Tax Questions

Source	Phone Number
Internal Revenue Service (IRS)	
IRS local office	
IRS	
SBA answer desk	
Federal agencies (list)	

ADDENDUM C

Insurance Worksheet

Type of Risk	Amount of Insurance (policy limits)	Type of Policy	Deductible	Premium
Commercial building				
Contents				
Endorsements				
Liability				
Employees				
Life insurance				
Group medical				
Commercial auto				
Personal autos				
Homeowners				
Others				